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United Nations

United Nations Population Fund

Financial report and audited financial statements

for the year ended 31 December 2012

and

Report of the Board of Auditors

General Assembly
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30 June 2013

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Population Fund for the year ended 31 December 2012.

(*Signed*) Amyas Morse
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

The President of the General Assembly
United Nations
New York

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Population Fund (UNFPA), which comprise the statement of financial position for the year ended 31 December 2012, the statement of financial performance, the statement of changes in net assets, the cash flow statement and the statement of comparison of budget to actual amounts, as well as the notes to the financial statements.

Management's responsibility for the financial statements

The Executive Director is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether owing to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements on the basis of our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Population Fund as at 31 December 2012, and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNFPA that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of UNFPA and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations and Regulation 16.1 of the Financial Regulations and Rules of UNFPA (UNFPA/FIN/REG/Rev.9) and the related annex thereto, we have also issued a long-form report on our audit of UNFPA.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom
of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General of the United Republic of Tanzania
Lead Auditor

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2013

Chapter II

Long-form report of the Board of Auditors

Summary

The United Nations Population Fund is an international development agency that promotes the right of every woman, man and child to enjoy a life of health and equal opportunity. It supports countries in using population data for policies and programmes to reduce poverty and to ensure that every pregnancy is wanted, every birth is safe, every young person is free of HIV/AIDS and every girl and woman is treated with dignity and respect.

The Board of Auditors has audited the financial statements and reviewed the operations of UNFPA for the year ended 31 December 2012. The audit was carried out through field visits at country offices in Nigeria, Panama, the Philippines, Rwanda, Sierra Leone and Thailand, the Regional Office for Latin America and the Caribbean and the Procurement Services Branch in Copenhagen, as well as a review of the financial transactions and operations at headquarters in New York.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements of United Nations Population Fund for the year ended 31 December 2012. The opinion of the Board is reflected in Chapter I of this report.

Overall conclusion

UNFPA adopted IPSAS in 2012, which brought about significant changes to its accounting policies. These include the preparation of financial statements on an annual, rather than a biennial, basis. The adoption of the new IPSAS accounting policies also resulted in significant changes to the reporting of assets and liabilities. The analysis of the Board of the financial position of UNFPA as at 31 December 2012 notes that the organization is in good financial health. The Board considers that the implementation by UNFPA of the IPSAS accounting framework in 2012 was a major achievement. In response to a number of observations raised by the Board during its final audit regarding mistakes or omissions in areas such as treatment of employee benefits property, plant and equipment, UNFPA made the proper adjustments to its draft financial statements, strengthening their accuracy and comprehensiveness. UNFPA now faces the challenge of improving systems, strengthening internal controls and improving decision-making processes and financial management if it is to realize the full potential benefits of IPSAS based financial information. To ensure adequate accountability in the context of a highly decentralized structure, UNFPA also needs to consider further strengthening its oversight and monitoring of field-level activities.

Key findings

The Board identified a number of issues that require active consideration by management. In particular, the Board highlights the following.

Follow-up of previous audit recommendations

Of the 61 recommendations made by the Board for the biennium 2010-2011, 25 (41 per cent) were fully implemented; 32 (52 per cent) were under implementation; 3 (5 per cent) were not implemented; and 1 (2 per cent) was overtaken by events. The Board noted that UNFPA had implemented all the recommendations relating to implementation of IPSAS. The Board also noted an improvement in the implementation of recommendations that were not settled in the biennium ended 31 December 2011. The three unimplemented recommendations related to the harmonized approach to cash transfers system, and are pending owing to the current United Nations Development Group (UNDG) revisions of this framework. Details of the status of implementation of the recommendations of the Board are set out in the annex to the present report.

Financial overview

For the period under review, total revenue was $988.5 million, whereas total expenses amounted to $830.4 million, representing a surplus of $158.1 million. Contribution revenue from regular resources was $437.5 million and from other resources was $503.1 million, and other revenue was $51.1 million in the current year. As permitted by transitional rules, during the first year of presentation under IPSAS only limited comparative information is presented in the statements. The current assets to current liabilities ratio indicates that UNFPA can service its current debt 2.8 times using short-term resources, indicating a healthy position.

Implementation of International Public Sector Accounting Standards

The financial statements for the year ended 31 December 2012 were the first financial statements prepared by UNFPA in accordance with IPSAS. Generally, no significant matter was found that may affect the users' decisions when relying on the financial statements. The Board identified ways to improve the disclosure of property, plant and equipment, as highlighted in the section on the implementation of IPSAS in this report.

Determination of useful life for property, plant and equipment

The Board noted that 21 per cent of all property, plant and equipment with historical cost of $13.4 million were fully depreciated. The Board is concerned that recording assets at zero value without reassessment of their useful lives might distort the fair presentation of the year end results since the economic benefits or service potential associated with those assets and that continue to flow to UNFPA may not be fairly accounted for.

Increases of unfunded employment benefits liabilities

UNFPA has unfunded liabilities of $111.9 million, which include $70.1 million of after-service health insurance, repatriation benefits of $21.9 million, annual leave of $17.2 million and home leave of $2.7 million. The Board noted that unfunded liabilities have increased for three consecutive financial periods, from 32 per cent, 41 per cent and 45 per cent of the total employment benefit liabilities in the periods 2008-2009, 2010-2011 and 2012, respectively. The Board is aware that UNFPA has adopted and implemented a funding strategy that includes mechanisms such as cost accruals, interest on invested funds and setting aside part of the fund balance available for programming at the end of each year. The increasing percentage of unfunded liabilities increases the risk that the organization may not be able to meet its future employee end of service obligations.

Inventory management

The Board noted that even though UNFPA has a process of tracking and verification of inventory, UNFPA is unable to determine the inventory balances in all country offices at any point in time for the purpose of management reports and planning. Currently, the balances can only be determined manually during physical inventory count. UNFPA introduced a simple inventory management system module known as Channel in December 2012, but the system has not been fully utilized to track and report inventory, and therefore cannot be relied upon to produce information of acceptable quality. The Board considers that the manual process is an inefficient and unreliable way to keep track of goods in transit and ascertain the value of inventory at any particular time.

Procurement and contract management

In relation to procurement activities, the Board found deficiencies, such as (i) procurement contracts that were let on an ex-post facto basis without a clear rationale for not applying the competitive procurement methods; (ii) lack of a clear rationale for waiving competitive procurement or clear reasons for awarding of contracts without necessary reviews by the relevant contract review committee; (iii) the electronic module for recording all contracts and suppliers' information in the Atlas enterprise resource planning system was not activated; and (iv) lack of a consolidated organization-wide procurement plan. While the deficiencies did not result in material errors or non-compliance, there is a need for UNFPA to strengthen the procurement process.

Information technology

Information processed through the enterprise resource planning system in the course of day-to-day operations and the strategic decision-making process by management is vital. UNFPA business operations depend on the Atlas enterprise resource planning system, which is managed by UNDP and is located in the United Nations International Computing Centre in Geneva. The Board performed a general controls review of the information technology environment at the UNFPA head office and the Procurement Services Branch. The Board noted that the procedure for collecting change requests from UNFPA users to their focal point is not documented and it was unclear which staff in each department has authority to propose changes to the system. The Board considers that it is important for the change requests to be originated by users who have a detailed understanding of the business processes in the respective divisions prior to formalizing the requests as a change in the system.

Recommendations

The Board has made a number of detailed recommendations based on its audit that are contained in the body of the report. The main recommendations are that UNFPA:

(a) Review and update the fixed asset management policy and procedures to provide a clear policy on the actions to be taken when property, plants and equipment are fully depreciated; and review the useful life of property, plants and equipment;

(b) Strengthen the implementation of the funding plan as approved so as to increase the funding of employee benefits liabilities and minimize unfunded liabilities;

(c) Improve the use of the inventory management system module "Channel" to ensure full utilization of the system in keeping track of inventories in its field offices, and therefore increase reliability of inventory balances presented in the financial statements;

(d) Strengthen the mechanisms for monitoring and reviewing procurements, taking into consideration risk and cost factors by increasing regular reviews of the performance of the requisition units;

(e) Formalize the system change management procedure by standardizing change request forms and communication along with clearly dedicated responsibility for managing change requests from divisions, departments, countries and regional's offices; and ensure that the user acceptance testing process is properly documented and included in the central server for easy reference.

A. Mandate, scope and methodology

1. The United Nations Population Fund is an international development agency that promotes the right of every woman, man and child to enjoy a life of health and equal opportunity. It supports countries in using population data for policies and programmes to reduce poverty and to ensure that every pregnancy is wanted, every birth is safe, every young person is free of HIV/AIDS and every girl and woman is treated with dignity and respect.

2. The Board of Auditors has audited the financial statements of UNFPA and reviewed its operations for the financial year ended 31 December 2012 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNFPA as at 31 December 2012 and the financial performance and cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenses have been properly classified and recorded in accordance with the UNFPA Financial Regulations and Rules. The audit included a general review of financial systems and

internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. The audit was carried out through field visits at country offices in Nigeria Panama, the Philippines, Rwanda, Sierra Leone and Thailand; the Regional Office for Latin America and the Caribbean; and the Procurement Services Branch in Copenhagen, as well as a review of the financial transactions and operations at headquarters in New York.

5. In addition to the audit of the financial statements, the Board carried out reviews of UNFPA operations under Regulation 7.5 of the Financial Regulations and Rules of the United Nations. This allows the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNFPA operations.

6. The Board coordinates with the Division for Oversight Services in the planning of its audits in order to avoid duplication of efforts and to determine the extent of reliance that could be placed on the work of the latter.

B. Findings and recommendations

1. Follow-up of previous audit recommendations

7. Of the 61 recommendations made by the Board for the biennium 2010-2011, 25 (41 per cent) were fully implemented; 32 (52 per cent) were under implementation; and 3 (5 per cent) were not implemented and 1 (2 per cent) was overtaken by events. Details of the status of implementation of these recommendations are set out in the annex to the present report.

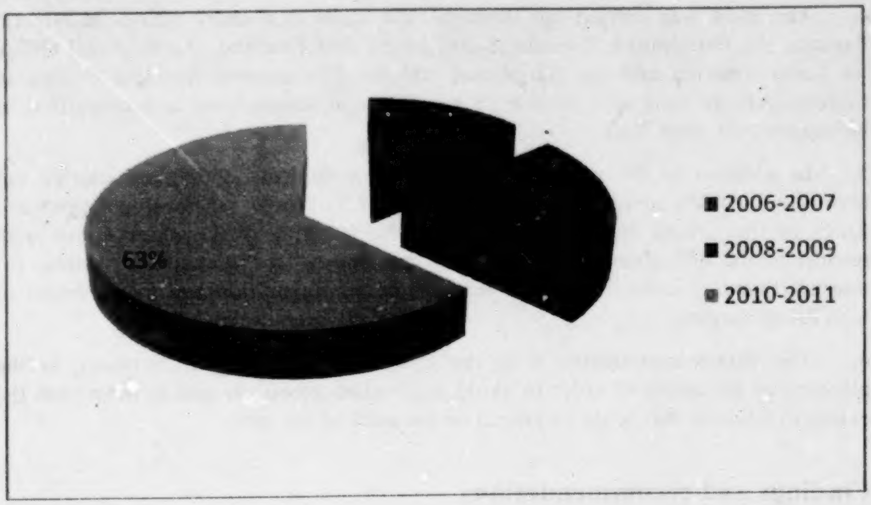
8. The Board noted that the implementation of recommendations that were not settled in the biennium 2010-2011 had improved to 5 per cent, compared with 12 per cent in the prior biennium.

9. The Board also noted that all recommendations relating to IPSAS were implemented. Moreover, the Board noted that UNFPA made gradual progress in the implementation of recommendations relating to asset management, leave management, inventory management, procurement, operating fund advances and education grants. However, these were not fully implemented.

10. The Board evaluated 35 recommendations from previous bienniums that were yet to be fully implemented, and noted that 32 recommendations were under implementation, 3 were not implemented, 5 (14 per cent) were issued for the first time in the biennium 2006-2007 and 8 (23 per cent) were first issued in the biennium 2008-2009, while the remaining 22 recommendations (63 per cent) were first issued in the biennium 2010-2011.

11. The Board noted that all three unimplemented recommendations related to the harmonized approach to cash transfers. The implementation of these recommendations depends on the outcome of the revision of the harmonized approach to cash transfers framework as recommended by the joint audit of harmonized approach to cash transfers governance, which was conducted in 2012.

Figure
Ageing of recommendations under implementation/not implemented for the previous biennium



2. Financial overview

12. The 2012 financial statements are the first issued in compliance with IPSAS and the first annual audited financial statements of UNFPA. Previously the statements were audited on a biennial basis. The presentation of these statements has considerably changed compared with previous years as a result of the implementation of IPSAS accrual accounting policies and requirements. As permitted by IPSAS transitional rules, as this is the first year of presentation, only limited comparative information is presented in the statements.

Operating results

13. For the period under review, total revenue was $988.5 million, whereas total expenses amounted to $830.4 million, representing a surplus of $158.1 million.

Contributions for regular and other resources

14. UNFPA receives two different types of contribution revenue: regular resources ($437.5 million) and other resources, net of cost recoveries and refunds to donors ($503.1 million). Other resources accounted for approximately 53 per cent of total contributions in 2012. The higher proportion of other resources meant that UNFPA activities were predominantly earmarked and being executed on the basis of specific donor requirements.

Fund balances and reserves

15. The unearmarked resources balance comprises designated fund balances and undesignated fund balances. As at the end of 2012 the undesignated fund deficit was $48.7 million and the designated fund had a surplus balance of $43.1 million.

16. UNFPA maintained two types of reserves: the operational reserve and the reserve for field accommodation. As at the end of 2012, the operational reserve was $87.2 million and the reserve for field accommodation was $6.1 million.

Cash and investments

17. As at 31 December 2012, cash and highly liquid investments held by UNFPA totalled $616.8 million. In compliance with IPSAS, highly liquid investments with a maturity of three months or less ($357.6 million in 2012) are classified as cash equivalents. Investments maturing after one year totalled $311.6 million. The UNFPA investment portfolio as at 31 December 2012 amounted to $905.8 million. Year-on-year yields on investments fell to an average of 1.0 per cent from 1.4 per cent in the previous year.

Assets and liabilities

18. With the implementation of IPSAS, in 2012 UNFPA recognized and disclosed the following new classes of assets: inventory ($15.8 million at 1 January 2012; $35.7 million at 31 December 2012) and property, plant and equipment ($31.6 million at 1 January 2012; $32.0 million at 31 December 2012). The opening value of employee benefits liabilities was also restated to reflect the change from the "actuarial" to the "actual" method for the calculation of the annual leave liability.

Financial ratios UNFPA

19. The table below contains key financial ratios extracted from the financial statements.

Table
Financial ratios UNFPA

Description of ratio	*31 December 2012*	*1 January 2012*
Current assets: current liabilities	2.8	4.1
Total assets: total liabilities	2.3	2.6
Cash and equivalent: current liabilities	**1.3**	**1.1**

Source: UNFPA financial statements.

20. The ratios set out in the table show that current assets are approximately 2.8 times greater than current liabilities and that total assets are around 2.3 times greater than total liabilities, reflecting UNFPA ability to meet short-term obligations. Also, cash to current liabilities shows the extent of cash available to settle short-term debts at about 1.3 times. The ratios show a financial healthy position of UNFPA as at 31 December 2012.

3. Implementation of the International Public Sector Accounting Standards

21. The financial statements for the year ended 31 December 2012 were the first financial statements prepared by UNFPA in accordance with IPSAS. The Board reviewed IPSAS opening balances and end-of-year financial statements. Generally, no significant matter was found that may affect the users when relying on the

financial statements. However, the Board highlighted some issues for further improvement of the financial statements.

Determination of useful life for property, plant and equipment

22. IPSAS requires the residual values and the useful lives of assets to be reviewed at least annually. The Board noted that property, plant and equipment with historical cost of $13.4 million, equivalent to 21 per cent of all assets of UNFPA, were fully depreciated and still in use. Although these assets are disclosed in note 8 to the financial statements, both the assets management policy and the property, plant and equipment policy do not consider fully depreciated assets with continuing service potential.

23. The Board is concerned that the 21 per cent of UNFPA assets remaining in use though are fully depreciated, may indicate a deficiency in the existing policy to appropriately guide management on the best course of action under IPSAS reporting requirement.

24. **The Board recommends that UNFPA: (i) review and update the fixed asset management policy and procedures to provide a clear policy on the actions to be taken when property, plant and equipment are fully depreciated; and (ii) review the useful life of property, plant and equipment.**

25. The UNFPA management explained that (i) the difference between the useful life mentioned in the UNFPA policy and the average economic life of the assets as reported above is not very significant and does not materially distort the financial statements of the organization; (ii) UNFPA is still accumulating experience in identifying precise trends in terms of average economic life of its assets, which may vary among country offices; and (iii) UNFPA plans to review the identified useful life parameters in the light of the experience accumulated in the past years and in the context of its 2013 IPSAS project workplan.

Weaknesses in asset management

26. In its previous report (A/67/5/Add.7), the Board noted a number of weaknesses in asset management, including asset certifications that were submitted late by the country offices; some country offices did not perform physical asset counts, some assets were not recorded in the asset register and, in other instances, there was no evidence that the results of the physical count were reconciled to the asset register.

27. During the financial year under review, the Board continued to note weaknesses in assets management at UNFPA headquarters and country offices visited as follows:

(a) In Sierra Leone and Nigeria country offices, assets involving three motor vehicles and four air conditioners, all valued at $107,900 that were acquired in 2012 and in the prior years, were neither capitalized nor included in the assets in-service report in the prior years as required by the asset management policy, although they met the capitalization threshold of $1,000;

(b) In the Nigeria country office the Board found that two motor vehicles that were still in use were not recorded in the in-service assets register. The values of these items were not indicated and could not be determined because supporting documents were not readily available;

(c) In the Sierra Leone, Philippines, Nigeria and Thailand country offices and UNFPA headquarters the Board noted that monthly reconciliations of assets were not performed, contrary to the requirements of paragraph B.2.3 of the UNFPA asset management policy.

28. The Board is of the view that an infrequent or a non-reconciliation of assets movement (acquisitions, disposal, transfer and adjustments) has the effect of the entity not being able to determine accurately the balances in the asset management module of the Atlas enterprise resource planning system. Also, this lapse has a risk of understatement of asset value recorded in the in-service assets report.

29. **UNFPA agreed with the Board's recommendation to: (i) issue a reminder to all country offices to adhere to the requirements of the asset management policy, in particular on recording and reconciliations of assets; and (ii) continue to perform a verification exercise to ensure that all of its assets are recorded on the assets register.**

4. Unfunded employment benefits liabilities

30. The Board noted that for the year ended 31 December 2012, UNFPA reported in the financial statements a total employment benefit of $247.3 million, which included after-service health insurance of $201.6 million, a repatriation grant of $22.4 million, annual leave of $20.4 million and home leave of $2.9 million.

31. Review of note 12 to the UNFPA financial statements revealed that UNFPA has an unfunded liability of $111.9 million, which includes after-service health insurance of $70.1 million, repatriation benefits of $21.9 million, annual leave of $17.2 million and home leave of $2.7 million. The Board is aware that UNFPA has developed and implemented a funding strategy for its end-of-service liabilities.

32. The Board is concerned that the unfunded liability continued to increase for three consecutive financial periods from 32 per cent, 41 per cent and 45 per cent of the total employment benefit liabilities in the periods 2008-2009, 2010-2011 and 2012, respectively. The increasing percentage of unfunded liabilities increases the risk that the organization may not be able to meet its future employee end-of-service obligations.

33. UNFPA management acknowledges an increase in the level of employee benefit liabilities over the last three years and consequently an increased funding gap. Since 31 December 2012, UNFPA has developed three funding mechanisms: (a) discretionary funding whereby at the end of each year the organization sets aside part of the fund balance available for programming; (b) interest earned from the funding that was already set aside; and (c) two new payroll-based accruals to cover funding gaps for annual leave and repatriation benefits liabilities. Also UNFPA outsourced investment management of funds already set aside in order to maximize rate of return generated by these funds. The organization intends to revisit these strategies annually to ensure that the intended funding objective would be met.

34. **UNFPA agreed with the Board's recommendation to strengthen the implementation of the funding plan as approved so as to increase the funding of employee benefits liabilities and minimize the unfunded liabilities.**

5. Inventory management

35. UNFPA recognizes inventory when control has shifted from supplier and after obtaining ownership of goods through relevant documents. Inventories controlled by UNFPA that are not physically received are recognized as inventories in transit.

36. The Board review of inventory management process identified the following deficiencies for headquarters and country offices.

Non-utilization of simple inventory management module Channel

37. The Board noted that even though there is a process of tracking and verification of inventory, UNFPA is not able to easily determine the balances of inventory in all country offices at any point in time for the purpose of management reports and planning. Currently, the balances can be determined only during the physical count of inventory. The Board noted UNFPA efforts in trying to improve management of inventory whereby in December 2012 an inventory system module known as Channel was introduced. This was intended to facilitate the determination of number and value of stock held in the field offices.

38. The Board, however, noted that up to 31 December 2012 the Channel system had not been fully utilized to track and report inventory; instead, UNFPA had to resort to manual processes and compilations to arrive at the inventory balance to be presented in the financial statements.

39. The Board is of the view that the manual system is neither an efficient nor a reliable way to keep track of goods in transit and ascertain the value of inventory at any particular time. In addition, manual compilation increases the risks of errors and therefore might affect reliability of the inventory figure presented in the financial statements.

40. **UNFPA agreed with the Board's recommendation to improve the use of the inventory management system module Channel to ensure full utilization of the system in keeping track of inventories in its field offices, and therefore increases reliability of inventory balances presented in the financial statements.**

6. Consultants, experts and temporary assistance

41. The Board reviewed the management of the consultants, experts and temporary assistance in country offices and noted the following deficiencies.

Use of special service agreements not in line with the policy

42. The Board noted that the use of special service agreements is not in line with the UNFPA policy. For instance, three consultancy firms were engaged by one country office under special service agreements for auditing, cleaning and security services for different periods starting from 1 June 2012. These engagements were against the UNFPA policy on special service agreements, which expressly states that the policy is not meant for incorporated companies.

43. The Board is of the view that entering into a special service agreement with corporate companies (consultancy firms) is contrary to the UNFPA recruitment guide on special service agreements, and may divert from normal procurement process and procedures, which require the agency to use the competitive bidding process to obtain consultants.

44. The UNFPA management informed the Board that issuing special service agreements to the incorporated companies was an oversight. The management also affirmed that it will be more cautious and use competitive procedures for professional services hired by UNFPA.

45. **The Board reiterates its earlier recommendation that UNFPA enhance control over use of special service agreements and only allow special service agreements that are consistent with its policy.**

Service contract evaluation not performed in a timely manner

46. The UNFPA guideline for service contracts requires service contract holders to be evaluated two months before the expiration of the contract and inclusion of justification for the extension under section VII of the service evaluation form. The Board noted that 7 of the 10 reviewed contracts from the Sierra Leone and Thailand country offices were evaluated after the expiration of the contract period and did not indicate justification for renewal. For example, in the Sierra Leone country office a contract was renewed for one year, starting on 1 January 2012, but the evaluation was done on 17 January 2012, meaning that the extension was given without the justification.

47. The management stated that it would establish a service evaluation form for internal usage for timely reappraisal of expiring contracts.

48. Failure to abide by the requirement to evaluate staff performance in a timely manner may lead to continued retention of non-performing staff, while using less binding agreements may have negative legal repercussions, such as losing cases in case of litigations.

49. **UNFPA agreed with the Board's recommendations to abide by the service contract policy by conducting evaluations of service contracts two months prior to the expiration date and provide justification for the renewals.**

7. Human resources management

Weaknesses in leave management

50. In its report (A/67/5/Add.7, paras. 131-132), the Board reported several deficiencies in UNFPA leave administration. The Board reiterated a recommendation it made earlier that UNFPA maintain accurate and complete leave records. The Board further recommended that UNFPA expedite the process of reconciling the manual leave balance and the system balance to ensure accurate and complete leave balances for IPSAS opening balances. Nevertheless, for the year ended 31 December 2012, the Board continued to note deficiencies in leave management throughout UNFPA.

Uses of manual leave records and leave points not reflected in the Atlas enterprise resource planning system

51. The Board reviewed a sample of 53 leave balances related to the financial year ended 31 December 2012 and noted that these were compiled manually, which was inconsistent with the requirement to use the e-services application module. Filling leave forms manually leaves opportunity for human error and increases the risk of misstatements for the leave liability balance.

52. The Board found that in 20 cases examined, staff had certified sick leave not recorded in the Atlas system. The Board also noted that absence processors did not comply with the absence management policy, which requires the submission of leave records to staff and their supervisors on a monthly basis for reconciliation and signature.

53. UNFPA informed the Board that leave adjustments may not be reflected in real time owing to adjustments to leave balances missing the monthly cut-off dates in e-services, as they are not necessarily processed in real time. However, the Board considers that the parallel running of the manual and e-services is not an efficient or economical system.

54. **UNFPA agreed with the Board's recommendations to: (i) improve the e-service application for leave management in order to ensure effective control, accurate recording and processing of leave applications so that the planned output from this application could be achieved; and (ii) establish an internal review mechanism to ensure that leave monitors and absence processors, as well as staff supervisors, are adequately administering and reconciling leave applications.**

Approval and management of special leave

55. The Board reviewed the UNFPA human resources policies on personnel and special leave and revealed that there is no clear delegated authority for approving leave.

56. The Board noted that 19 out of 39 locally recruited and international staff selected for review were granted special leave by the representatives at the country office or the immediate supervisors at the headquarters, without the prior approval of the Director of Human Resources, as required by the learning and career management policy. The Board also noted that Atlas reports on special leave do not specify the duration and the reason for granting special leaves. The special leave report showed that 7 out of 19 staff granted special leave went for periods ranging from one to three years.

57. The Board considers that special leave ranging for a period greater than three months should be administered centrally to ensure that the Department of Human Resources has adequate information and control of the leave taken to avoid a possibility of management losing track of its human resources.

58. The management stated that the staff learning and career development policy was under review and that the provision related to special leave in the policy would be revisited.

59. **UNFPA agreed with the Board's recommendations that it: (i) improve its leave policy to clearly state the role and approval limits so as to ensure that the headquarters have adequate control on endorsement and granting of special leave; and (ii) review Atlas reports on special leave to make it more comprehensive by including duration and reason for granting special leave.**

8. Procurement and contract management, including the Procurement Services Branch in Copenhagen

60. A good procurement function ensures adherence to policies and procedures so that decisions are fair and transparent and obtain the best value for money. UNFPA procures goods and services t support the organization's operations and has a Procurement Services Branch, which is specialized in the acquisition of contraceptives and related commodities along with equipment for supplying to the programme countries.

61. The Board review of the UNFPA specialist Procurement Services Branch procurement activities and processes, as well as the Contract Review Committee, noted some deficiencies in the following areas.

Approval of ex-post facto cases

62. From the review of the Contract Review Committee, the Board noted that examination of 3 procurements costing $1.7 million out of 10 made by the Procurement Services Branch were done on an ex-post facto basis without a clear rationale for not applying the competitive procurement methods. Nevertheless, neither the minutes nor reports from the Procurement Services Branch were specific regarding how long these three contracts were extended after the expiration dates and the clear justifications for the post-facto approval.

Lack of procurement plan

63. The Board noted that UNFPA did not have a consolidated organization-wide procurement plan. Consequently, headquarters departments and field offices did not have procurement plans for the year 2012. The Board considers that a consolidated procurement plan would allow the entity to organize its requirements into requisitions, enable on-time delivery and take advantage of the economies of scale.

Non-activation of contracts and suppliers' information in the Atlas enterprise resource planning system

64. The Board noted that the electronic module for recording all contracts and suppliers' information in the Atlas system is not activated. The non-activation of Module for recoding contracts and suppliers' information in the Atlas system may create difficulties in maintaining accurate and complete contracts and suppliers' information for references and evaluations.

65. The Board is concerned about the existence of several instances of non-compliance with procurement procedures. This increases the risk that procurement and contracts will not be fair and transparent and may not deliver good value for money.

66. UNFPA stated that the Procurement Services Branch has launched new procurement procedures that are very descriptive about when to use exceptions to formal methods of solicitation. It specifies the requirements to be fulfilled and the documentations to be provided in order to satisfy the requirements for exceptions. Further, it specifies the requirement to conduct appropriate and proper procurement planning. The Procurement Services Branch has also already taken action to implement the procurement planning tool for the UNFPA Head Office divisions and branches in 2013.

67. UNFPA agreed with the Board's recommendations to strengthen the mechanisms for monitoring and reviewing procurements taking into consideration risk and cost factors, by increasing regular reviews of the performance of the requisition units.

9. Harmonized approach to cash transfers

68. Pursuant to General Assembly resolution 56/201, on the triennial policy review of operational activities for development of the United Nations systems, the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF), UNFPA and the World Food Programme (WFP) (referred to as the United Nations Development Group Executive Committee agencies) adopted a common operational framework for transferring cash to government and non-government implementing partners. Its implementation is aimed at reducing transaction costs and the burden that the multiplicity of United Nations procedures and rules creates for its partners.

69. In its previous report (A/67/5/Add.7), the Board raised concerns about the failure of UNFPA to implement the harmonized approach to cash transfers within the time frame as planned. The Board noted a number of weaknesses, including lack of progress since the process was introduced in 2005; absence of a proactive process within UNFPA to encourage the self-declared country offices to fully implement the residual processes of certification through the NEX Unit and ineffective monitoring of the implementation of the harmonized approach to cash transfers.

70. The United Nations system decided to revisit the harmonized approach to cash transfers framework. This was done through the joint audit of the governance arrangements for the harmonized approach to cash transfers. The joint audit report was issued on 9 November 2012.

71. The report highlighted several gaps and shortcomings within the harmonized approach to cash transfers framework, including:

(a) Limited implementation of the harmonized approach to cash transfers, with only 29 countries assessing themselves as compliant with the harmonized approach to cash transfers and a low level of completion of macro- and micro-assessments, because of challenges concerning inter-agency coordination and lack of resources at the country level;

(b) Limited assurance about the appropriate use of funds by implementing partners, with major inconsistencies in the implementation approach between countries owing to the delegation of decision-making to the country office level without any central oversight or clearance mechanisms;

(c) Limitations encountered in the use of macroassessment as an effective tool for managing financial risk and determining the cash transfer modality and assurance activities for specific implementing partners;

(d) Lack of clarity on the roles and responsibilities related to the harmonized approach to cash transfers and accountability at the global level;

(e) Lack of coordination of the monitoring of the implementation of the harmonized approach to cash transfers and verification of data, creating challenges regarding the overall accuracy of reports generated;

(f) Universal acceptance of the harmonized approach to cash transfers compliance criteria and the designated authority to certify that compliance was not clearly defined in the harmonized approach to cash transfers framework.

72. The United Nations Population Fund management informed the Board that the findings of the joint audit of the harmonized approach to cash transfers governance were currently addressed through an inter-agency effort to revise the current harmonized approach to cash transfers framework. The inter-agency Harmonized Approach to Cash Transfers Advisory Committee had decided to undertake the revision following the joint audit and the global assessment commissioned by the Advisory Committee. A consulting firm had been engaged in December 2012 and the exercise was still ongoing. The proposed revisions had gone through validation in several reviews and discussions by the involved agencies. The last validation workshop was scheduled on 8 July 2013.

73. **The Board reiterates its previous audit recommendation and concurs with the joint audit team of the harmonized approach to cash transfers governance that there is a need for UNFPA, in collaboration with other United Nations agencies using the harmonized approach to cash transfers, to revisit the framework. The focus should be on either to redesign the framework appropriately or to develop a different and a more effective approach that would achieve the same objectives intended by the barmonized approach to cash transfers framework.**

10. Information technology

74. UNFPA business operations depend on the Atlas enterprise resource planning system managed by UNDP, which is located in the United Nations International Computing Centre. Information processed through the enterprise resource planning system in the course of day-to-day operations and the strategic decision-making process by management is vital.

75. The Board reviewed the information technology environment surrounding the Atlas enterprise resource planning system at UNFPA and conducted procedures in the areas of information technology governance and user access control. The Board noted the following deficiencies.

Lack of adequate documentation on change management process

76. UNDP managed all changes in the Atlas system. UNFPA, on its part, receives proposed change requests from users through its change management focal point, and forward it to UNDP. The Board noted that the procedure of processing changes from UNFPA users to their focal points is not documented, and it was not clear who are the appropriate people of each department to whom changes to the system should be proposed. The Board considers that it is important for the changes to be originated by users who have a detailed understanding of the business processes in the respective divisions prior to formalizing the requests as a change to the system.

77. **UNFPA agreed with the Board's recommendation to: (i) formalize the change procedure by standardizing change request forms and communication, and to provide clearly dedicated responsibility for managing change requests from divisions, departments, countries and regional offices; and (ii) ensure that**

the process of user acceptance testing is properly documented and included in the central server for easy reference.

11. Internal audit and oversight

78. The UNFPA Division for Oversight Services solely performs, manages or authorizes others to perform or manage independent oversight services in internal audits (effectiveness of the governance, risk management and internal control processes and economic and efficient use of resources); in evaluations (independent evaluations and assessment of quality of decentralized evaluations); and in investigations (allegations of violations of applicable regulations, rules and administrative or policy pronouncements). The Board review of the activities of the Division for Oversight Services noted the following.

Vacancies in the Division for Oversight Services

79. In 2012 the average vacancy rate of the Division for Oversight Services was 21 per cent, compared with 8 per cent in 2011. At year end, three posts in internal audit and that of the deputy director were vacant. The recruitment of two internal auditors was completed in 2012, and the selected candidates joined the Division in 2013. The other post of internal auditor was under recruitment at the time of the audit. The absence of a deputy director is one of the major factors contributing to the increase in the average vacancy rate in 2012 compared with 2011. The recruitment of the deputy director was put on hold in view of the developments in the evaluation function.

Internal audit plan

80. According to the 2012 original workplan of the Division for Oversight Services, the total audits to be undertaken were 16 assignments. At year end, seven assignments were completed, including one unplanned assignment. The issuance of the final reports for another 10 audits was carried over to the 2013 calendar year. Additionally, the evaluation branch completed one thematic evaluation; one evaluation of an instrument (thematic fund); and one country programme evaluation.

81. The Board is of the view that the delayed completion of the current year audit plan may affect the audits of the following years owing to the backlog of the previous years' activities.

82. The execution of the 2012 internal audit plan was affected by the vacancy level in the Division for Oversight Services and unforeseen circumstances, the impact of joint audit work, the introduction of a new report format and other factors that limited internal audit staff availability throughout the year. The use of outside audit services to augment the Division's internal audit staff was used as a partial mitigation measure, and the 2013 annual audit plan included the audits carried over from 2012.

83. **The Board recommends that the UNFPA Division for Oversight Services expedite the process of filling auditor vacant post.**

C. Disclosures by management

1. Write-off of contributions receivable, operating funds advances and other assets

84. UNFPA informed the Board that, in accordance with financial regulation 14.5 and rules, losses amounting to $544,563 had been written off in respect of contributions receivable, operating funds advances and other assets.

2. Ex gratia payments

85. As required by regulation 14.4 (a), the Administration reported ex gratia payments for the period under review amounting to $2,492 made for lost luggage to a participant of a joint field mission of the Executive Board.

3. Cases of fraud and presumptive fraud

86. During the year ended 31 December 2012, UNFPA notified the Board of five cases (2010-2011: 9 cases, 2008-2009: 20 cases) of fraud and presumptive fraud. Following is a summary of the fraud:

(i) Fraud regarding contracting the same vendor without a rigorous competitive process;

(ii) Fraud regarding missing consumable (cartridges);

(iii) Fraud regarding the supplier imitating staff member signature and UNFPA stamp on bank reconciliation to benefit for a loan;

(iv) Fraud regarding a credit request letter with a false signature;

(v) Fraud regarding the sale under auction of hormonal contraceptives (Implanon) donated by UNFPA.

D. Acknowledgement

87. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director of UNFPA and members of his staff.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom of
Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania
(Lead auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2013

Annex

Status of implementation of recommendations of the Board of Auditors for the biennium ended 31 December 2011[a]

Summary of recommendation	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
(a) Address vacant positions; and (b) shorten the lead time for filling vacancies and ensure that it has sufficient resources to achieve its programme objectives	296	2004-2005	X			
Shorten the lead time for filling vacancies	300	2004-2005	X			
Improve the recording of attendance and leave	313	2004-2005	X			
(a) Clear all long-outstanding amounts from staff education grants; (b) regularly reconcile the accounts to comply with paragraph 11 of information circular ST/IC/2002/5; and (c) consider a revision to the separation process to ensure that outstanding education grants are recovered from staff prior to separation	49	2006-2007	X			
Consider revision to the separation processes	50	2006-2007		X		
Monitor and follow-up on accounts payable	58	2006-2007		X		
(a) Ensure that petty cash is replenished in a timely manner; (b) comply with UNFPA policies and procedures with regard to maintenance of supporting documents relating to petty cash, which could be by way of declaration by the expending official; and (c) ensure that petty cash counts are performed on a regular basis, in accordance with UNFPA financial accountability reporting	116	2006-2007	X			
Follow up on long-outstanding operating fund advances in a timely manner and ensure that funds advances are utilized for intended purposes	197	2006-2007		X		
Comply with policies and procedures regarding the evaluation of vendor performance	232	2006-2007		X		
(a) Comply with the requirements of the UNFPA asset management policy with regard to the bidding process and the award of bids for disposal of UNFPA assets; and (b) review the cases of disposals that were not consistent with UNFPA policies and procedures	251	2006-2007				X

Summary of recommendation	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Record all assets	281	2006-2007	X			
Maintain accurate and complete leave records	314	2006-2007	X			
Advise suppliers and requisitioners of the importance of utilizing the online tracking system effectively, in monitoring the status of order lead times, quality of goods delivered and evaluating suppliers, while the online tracking system is still in use	379	2006-2007		X		
(a) Implement procedures to monitor the use of waivers and review the validity of the reasons provided by requesting units for waivers; and (b) adequately document and justify the use of waivers	370	2006-2007	X			
Review the process of global payroll services	53	2008-2009		X		
(a) Address the misclassifications of expenditure line items; (b) review the remaining expenditures incurred to ensure all classifications are correct for the biennium; and (c) implement control procedures to ensure that expenditure items are posted to the correct general ledger accounts	65	2008-2009	X			
Follow-up with donors to ensure that available donor funds are utilized for programme implementation, or paid back to donors in a timely manner	68	2008-2009	X			
Take appropriate measures to ensure the validity, accuracy and completeness of the data used in the computation of all post-retirement and end-of-service liabilities in the future financial periods by ensuring that the information pertains to the correct reporting period	90	2008-2009		X		
To reduce the reconciliation/recover time. Staff to be separated must know to submit their evidence of payments prior to obtaining final pay. This is an ongoing activity requiring continued attention from UNFPA	114	2008-2009		X		
(a) Analyse its long-outstanding operating fund balances and identify balances that are not recoverable and consider write-off; and (b) review operating fund advances transactions to identify and correct accounting errors	198	2008-2009	X			
Make payments based on obligating documents	215	2008-2009		X		

Summary of recommendation	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Submission of asset certifications	256	2008-2009		X		
Update assets registers with correct assets locations	262	2008-2009		X		
Strengthen asset management controls in the field either (a) through reviewing its guidance available to country offices; or (b) through training on asset management. Its initiatives should focus on timely submission of asset certifications; improvements in asset identification and recording, and inventory count procedures	267	2008-2009		X		
Update the status of assets in the asset registers	273	2008-2009	X			
Capitalize the value of the Global Contraceptive Commodity Programme stocks in its financial statements	290	2008-2009	X			
Disclose value of expendable inventory	291	2008-2009	X			
Maintains accurate and complete leave records	309	2008-2009		X		
Follow-up on long-outstanding fund balances	346	2008-2009	X			
Roll-out inventory management system to country offices	25	2010-2011		X		
Review its transactions and general ledger to ensure that transactions and account balances are correctly classified in the correct accounts	30	2010-2011	X			
(a) Clear all long-standing amounts from staff education grants; (b) regularly reconcile the accounts to comply with information circular; and (c) consider a revision to the separation process to ensure that outstanding education grants are recovered from staff prior to separation	33	2010-2011		X		
Follow-up with donors to ensure that available donor funds are utilized for programme implementation, or paid back to donors in a timely manner	39	2010-2011		X		
Monitor the issuance of project progress reports to donors by country offices, as required by the donor agreements	42	2010-2011	X			
Ensure that operationally closed earmarked projects are financially closed in a timely manner	46	2010-2011		X		

Summary of recommendation	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
United Nations system to revisit the harmonized approach to cash transfers framework to address the reasons why the framework has not worked, if the harmonized approach to cash transfers needs to be pursued or revised or if alternate models that support the original objectives can be developed	**64**	**2010-2011**			**X**	
(a) Consider amendments to its harmonized approach to cash transfers implementation guideline to clearly define roles and responsibilities relating to harmonized approach to cash transfers implementation; and (b) in conjunction with other agencies, establish clear deadlines for harmonized approach to cash transfers compliance in the country offices	**65**	**2010-2011**			**X**	
(a) Review the adequacy of the assignment of the responsibility within the organization for UNFPA active participation in the harmonized approach to cash transfers; (b) review the assessment and audit reports to identify the needs of the implementing partners and improve the capacity; and (c) correctly implement the harmonized approach to cash transfers framework to ensure that it provides assurance that funds were used for the intended purposes	**66**	**2010-2011**			**X**	
Sudan country office to complete quarterly field monitoring visits report for all implementing partners	**69**	**2010-2011**				**X**
(a) Follow up on long-outstanding operating fund advances in a timely manner and ensure that funds advances are utilized for intended purposes; (b) reallocate credit balances in operating fund advances to accounts payables	**74**	**2010-2011**		**X**		
(a) Analyse its long-outstanding operating fund balances and identify balances that are not recoverable and consider write-off; and (b) review operating fund advances transactions to identify and correct accounting errors	**75**	**2010-2011**	**X**			
Consider effective controls, with a focus on headquarters monitoring over country office controls, to ensure that the operating fund advance balances are cleared on time	**76**	**2010-2011**	**X**			

Summary of recommendation	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
(a) Provide clarity on the extent of oversight that regional offices should provide to country offices; (b) capacitate regional offices with staff and tools to enable them to carry out the oversight functions; and (c) design and implement the performance measurement system to be used to measure the effectiveness and performance of regional offices	83	2010-2011		X		
Address the weaknesses in regional office architecture as recommended by the Division for Oversight Services	84	2010-2011		X		
Comply with policies and procedures regarding the evaluation of vendor performance	91 and 92	2010-2011		X		
Procurement Services Branch to address the long-outstanding third party balances	95	2010-2011	X			
(a) Implement procedures to monitor the use of waivers and review the validity of the reasons provided by the requesting units for waivers; and (b) adequately document and justify the use of waiver	99	2010-2011	X			
(a) Strengthen the review of ex post facto cases and other submissions to the contract review committee to limit the number of ex post facto cases	103	2010-2011		X		
Develop adequate contract management procedures to identify contracts that will expire to enable it to start the procurement process in good time	104	2010-2011		X		
Procurement Services Branch implement procedures that address potential conflicts of interest in its procurement process	106	2010-2011	X			
Nepal county office review its service contracts to ensure that core functions are not performed by service contractors	108	2010-2011		X		
Sudan country office perform service contracts evaluations and provide justification for the continued use of contracts	110	2010-2011		X		
Strengthen asset management controls in the field either (a) through reviewing its guidance available to country offices; or (b) through training on asset management; its initiatives should focus on timely submission of asset certifications; improvements in asset identification and recording, and inventory count procedures	115	2010-2011		X		

Summary of recommendation	*Paragraph reference*	*Financial period first made*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
Perform physical verification to ensure accuracy and completeness of asset register	116	2010-2011		X		
Disclose in the financial statements the value of unused expendable property at the end of the financial period in order to improve transparency, accountability and financial reporting, and in preparation for the implementation of the International Public Sector Accounting Standards	120	2010-2011	X			
(a) Address vacant positions; and (b) shorten the lead time for filling vacancies and ensure that it has sufficient resources to achieve its programme objectives	124	2010-2011	X			
Expedite finalizing and action of its business plan to redesign some of the posts	126	2010-2011		X		
Implement procedures that would require the preparation and review of payroll reconciliations, at least on a quarterly basis	129	2010-2011		X		
Maintains accurate and complete leave records	133	2010-2011		X		
Expedite the process of reconciling the manual leave balance and the system balance to ensure accurate and complete leave balances for IPSAS opening balances	134	2010-2011	X			
Division for Oversight Services expedite the process of filling vacant posts	144	2010-2011		X		
Addressing deficiencies in regional offices as mentioned in the report of the Division for Oversight Services	147	2010-2011		X		
Total	61		25	32	3	1
Percentage			41	52	5	2

[a] A/67/5/Add.7.

Chapter III

Certification of the financial statements

29 April 2013

I certify that, to the best of my knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

I acknowledge that:

> The management is responsible for the integrity and objectivity of the financial information included in these financial statements.
>
> The financial statements have been prepared in accordance with the International Public Sector Accounting Standards and include certain amounts that are based on the management's best estimates and judgements.
>
> Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. The Internal Auditor continually reviews the accounting and control systems.
>
> The management provided the Internal Auditor with full and free access to all accounting and financial records.
>
> The recommendations of the United Nations Board of Auditors and the Internal Auditor are reviewed by the management. Internal control procedures have been revised or are in the process of revision, as appropriate, in response to those recommendations.

I am in receipt of a letter of certification from the Deputy Assistant Administrator, Deputy Director and Chief Finance Officer, Bureau of Management, UNDP Office, which provides the same assurances with respect to UNDP accounting procedures and related systems of control to the extent that services are provided by UNDP to UNFPA, as per the management agreement currently in force and its subsequent amendments, and in conformity with UNFPA financial rule 115.3 (a).

(*Signed*) Subhash K. **Gupta**
Director
Division for Management Services

The Chair of the Board of Auditors
United Nations
New York

Chapter IV

Financial report for the year ended 31 December 2012

Introduction

1. The present report summarizes the information provided in the financial statements of UNFPA for the year ended 31 December 2012.

2. The financial statements comprise 5 statements, 26 notes and 5 schedules, which include information on the operations funded by both UNFPA unearmarked and earmarked resources.

3. The 2012 financial statements are the first issued in compliance with IPSAS and the first annual audited financial statements of UNFPA. Previously the statements were audited on a biennial basis. The presentation of these statements has changed considerably compared with previous years as a result of the implementation of a number of IPSAS accrual accounting policies and requirements. As permitted by IPSAS, only limited comparative information is presented in the statements.

Unearmarked resources

Revenue

4. Unearmarked contributions fell for the third consecutive year to $437.5 million (2011: $450.7 million).

5. In 2012 other revenue of $43.2 million included fees for support services ($23.1 million), investment revenue ($4.7 million) and foreign exchange gains ($7.0 million).

Expenses

6. Programme and institutional budget expenses for 2012 are summarized as follows.

(Millions of United States dollars)

	2012
Programme activities	**354.4**
Institutional budget	**134.2**
Other	**1.0**
Total	**489.6**

Programme expenses

7. The final budget for programme expenses in 2012 was $364.9 million, and 97.1 per cent of this amount was expensed by 31 December 2012.

8. The breakdown of 2012 programme expenses by implementing partner is summarized as follows.

(Millions of United States dollars)

	2012	
	$	*Percentage*
UNFPA	254.8	71.8
Governments and NGOs	97.1	27.4
United Nations agencies	2.5	0.8
Total programme expenses	**354.4**	**100.0**

9. The following United Nations entities executed projects funded by UNFPA in the year ended 31 December 2012:

- International Labour Organization (ILO)
- Food and Agriculture Organization of the United Nations (FAO)
- United Nations Educational, Scientific and Cultural Organization (UNESCO)
- World Health Organization (WHO)
- United Nations Office for Project Services (UNOPS)
- Economic Commission for Latin America and the Caribbean (ECLAC)
- Economic and Social Commission for Asia and the Pacific (ESCAP)
- Economic Commission for Europe (ECE)
- Economic and Social Commission for Western Asia (ESCWA)
- United Nations Children's Fund (UNICEF)
- United Nations Institute for Training and Research (UNITAR)
- United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)
- Office of the United Nations High Commissioner for Refugees (UNHCR)
- United Nations Development Programme (UNDP)
- United Nations Human Settlements Programme (UN-Habitat)
- United Nations System Staff College (UNSSC)

10. Note 19 (a) provides an analysis of programme expenses by country and region.

Institutional budget

11. The gross and net institutional budget appropriations for the biennium 2012-2013 were $292.2 million and $245 million, respectively. The net institutional budget appropriation is calculated by deducting the budgeted amount of indirect costs recovered from earmarked activities. The gross institutional budget amount internally allocated for 2012 was $143.4 million; 93.6 per cent of this amount was expensed as at 31 December 2012.

12. Institutional budget expenses for the year were as follows (details are provided in schedule D).

(Millions of United States dollars)

	2012
Gross expenses	134.2
Credits to the institutional budget*	(20.4)
Net institutional budget expenses	113.8
Total expenses: unearmarked resources	**489.6**
Gross institutional budget as percentage of total expenses	**16.2**

* This amount is calculated as half of the estimated cost recovery presented in the 2012-2013 institutional budget.

Fund balances and reserves

13. In 2012 expenses exceeded revenue by $12.2 million. This was after taking into account a $23.1 million charge in relation to actuarial losses on post-employment benefits liabilities partially offset by a $3.5 million reduction to the level of the operational reserve.

14. The unearmarked resources balance is comprised of two categories: designated fund balances and undesignated fund balances. As at the end of 2012 the undesignated fund deficit was $(48.7) million and the designated fund balance was $43.1 million. The programmable fund balance was $63.2 million on an IPSAS basis, of which an amount of $32.3 million was available for reprogramming in 2013.

15. In 2012 $2.7 million of actual cost recoveries in excess of the amounts based on implementation levels included in the institutional budget were retained in a separate designated fund. They will be used to cover future management and administration costs incurred in implementing programming activities. Other designated fund balances at 31 December 2012 include $1.8 million for procurement services and $38.5 million for a private endowment trust.

Earmarked resources

16. Contributions to earmarked resources in 2012 net of cost recoveries ($23.1 million) and refunds to donors ($7.4 million) totalled $503.1 million. This represents an increase of $84.1 million, or 20.1 per cent, from 2011.

Co-financing

17. Activities financed by co-financing funds are summarized as follows.

(Millions of United States dollars)

	2012			
	Trust funds	*Thematic trust funds*	*Other trust funds*	*Total*
Fund balances as at 1 January (restated after IPSAS adjustments)	226.3	173.4	14.7	414.4
Contributions — gross*	296.9	228.8	2.7	528.4
Programme expenses — gross*	(211.8)	(146.4)	–	(358.2)
Refunds to donors	(7.4)	–	–	(7.4)
Other revenue, expense and adjustments	(0.3)	3.4	1.5	4.6
Fund balances as at 31 December	**303.7**	**259.2**	**18.9**	**581.8**

* Contributions and expenses are presented gross consistent with schedule B.

18. Co-financing fund balances at 31 December 2012 were $581.8 million.

Procurement services

19. Procurement service receipts in 2012 totalled $13.2 million. UNFPA only accounts for its handling fee of 5 per cent as its revenue. At the end of the year UNFPA had $8.2 million in advances for procurement activities yet to be performed and $3.5 million receivables related to procurement activities already performed. The cost of goods procured on behalf of third parties amounted to $34.5 million in 2012.

20. Schedule C provides an analysis of third-party procurement services by category of client.

Financial position

Cash and investments

21. As at 31 December 2012, cash and highly liquid investments held by UNFPA totalled $616.8 million (2011: $581.6 million). Investments maturing after one year totalled $311.6 million (2011: $162.7 million).

22. The UNFPA investment portfolio as at 31 December 2012 totalled $905.8 million (a $170.5 million, or 23.2 per cent, increase compared to 2011); year-on-year yields on investments fell to an average of 1.0 per cent from 1.4 per cent in the previous year.

23. In compliance with IPSAS, highly liquid investments with a maturity of three months or less ($357.6 million in 2012) are classified as cash equivalents (note 3).

Assets and liabilities

24. With the implementation of IPSAS, in 2012 UNFPA recognized and disclosed the following new classes of assets: inventory ($15.8 million as at 1 January; $35.7 million as at 31 December) and property, plant and equipment ($31.6 million as at 1 January; $32.0 million as at 31 December). The opening value of employee

benefits liabilities was also restated to reflect the change from the "actuarial" to the "actual" method for the calculation of the annual leave liability, resulting in a $6.2 million increase.

25. As at 31 December 2012 total current assets were $811.1 million, compared with total current liabilities of $290.8 million, giving a current ratio, which measures the ability of the organization to meet its current obligations, of 2.8.

26. Total assets as at 31 December 2012 were $1,205.0 million. Contributions receivable increased significantly to $178.0 million (2011: $92.9 million) primarily in respect of multi-year co-financing agreements entered into in 2012. Of this amount, $166.5 million was not yet due as at 31 December 2012.

27. Total liabilities as at 31 December 2012 were $517.1 million. Accounts payable increased significantly over the year to $251.1 million (2011: $143.9 million), reflecting higher settlements owing to United Nations system organizations and funds received by UNFPA as an administrative agent of joint programmes. The employee benefits liabilities increased by $43.2 million in 2012, primarily as a consequence of a fall in the discount rate used in a new actuarial valuation.

Chapter V

Financial statements for the year ended 31 December 2012

Financial statements and schedules

Statement I

Financial position as at 31 December 2012

(Thousands of United States dollars)

	Notes	*As at 31 December 2012*	*As at 1 January 2012 (restated, note 2 (b))*
Assets			
Current assets			
Cash and cash equivalents	3	380 129	192 778
Investments maturing within one year	4	236 635	388 839
Inventories	5	35 743	15 819
Contributions receivable (exchange transactions)	6	237	955
Contributions receivable (non-exchange transactions)	6	127 508	60 289
Prepayments and other current assets	6	17 177	15 051
Operating fund advances	7	13 695	9 259
Total		**811 124**	**682 990**
Non-current assets			
Investments maturing after one year	4	311 648	162 716
Contributions receivable (non-exchange transactions)	6	50 276	31 660
Property, plant and equipment	8	31 963	31 563
Total		**393 887**	**225 939**
Total assets		**1 205 011**	**908 929**
Liabilities			
Current liabilities			
Accounts payable and accruals	10	251 056	143 860
Employee benefits	12	27 449	23 286
Other current liabilities and deferred revenue	13	12 334	1 249
Total		**290 839**	**168 395**
Non-current liabilities			
Employee benefits	12	219 891	180 825
Other non-current liabilities and deferred revenue	13	6 330	6 779
Total		**226 221**	**187 604**
Total liabilities		**517 060**	**355 999**
Net assets		**687 951**	**552 930**
Reserves and fund balances			
Operational reserve	14	87 204	90 704
Reserve for field accommodation	14	6 100	5 000
Total reserves		**93 304**	**95 704**
Designated unearmarked fund balances	14	43 055	40 780
Undesignated unearmarked and earmarked fund balances			
Unearmarked resources	14	(48 738)	(14 095)
Earmarked resources	Schedule B	600 330	430 541
Total fund balances		**594 647**	**457 226**
Total reserves and fund balances		**687 951**	**552 930**

Statement II

Financial performance for the year ended 31 December 2012

(Thousands of United States dollars)

	Notes		*2012*
Contribution revenue			
Unearmarked contributions	Schedule A		437 499
Less: transfers to other revenue for reimbursement of tax charges			(3 293)
Subtotal			**434 206**
Earmarked contributions	15		510 495
Less: refunds to donors	Schedule B		(7 371)
Subtotal			**503 124**
Total contribution revenue			**937 330**
Other revenue	16		51 142
Total revenue			**988 472**
Expenses			
Funds utilized by implementing partners — Governments and NGOs			198 909
Funds utilized by implementing partners — United Nations agencies			3 642
Funds utilized by UNFPA			627 836
Staff costs		236 652	
Supplies, consumables and operating costs		256 354	
Contracted services		75 594	
Finance costs	17	427	
Travel		45 515	
Depreciation	8	7 763	
Other expenses	18	5 531	
Total expenses			**830 387**
Surplus for the year			**158 085**

Statement III

Changes in net assets for the year ended 31 December 2012

(Thousands of United States dollars)

	Notes	*Fund balances*	*Reserves*	*Total net assets*
Balance as at 31 December 2011				
Changes in accounting policies				
Investments	2.b.i); 4	7	–	7
Inventories	2.b.ii); 5	15 819	–	15 819
Property, plant and equipment	2.b.iv); 8	31 563	–	31 563
Deferred revenue for donated right to use — finance lease similar	2.b.viii); 8	(5 425)		(5 425)
Employee benefits	2.b.vi)	(8 334)	–	(8 334)
Accounts receivable	2.b.iii)	(1 421)		(1 421)
Contributions receivable	2.b.ix)	7 479	–	7 479
Total opening balances adjustments due to IPSAS adoption		**39 688**	**–**	**39 688**
Adjusted opening balance as at 1 January 2012		**457 226**	**95 704**	**552 930**
Movements in fund balances and reserves in 2012				
Transfers to/from operational reserve	14	3 500	(3 500)	–
Staff-related benefits	14	(23 140)	–	(23 140)
Transfers within UNFPA resources				
Reserve for field accommodation	14	(1 234)	1 234	–
Other adjustments		76	–	76
Surplus/(deficit) for the period	Statement II	158 219	(134)	158 085
Total movements during the period		**137 421**	**(2 400)**	**135 021**
Balance as at 31 December 2012		**594 647**	**93 304**	**687 951**

Statement IV
Cash flow for the year ended 31 December 2012

(Thousands of United States dollars)

	Notes	*2012*
Cash flows from operating activities		
Surplus for the period	Statement II	158 085
Foreign-exchange holding (gains)/losses on cash and cash equivalents		(573)
Depreciation	8	7 763
(Gain)/loss on disposal of property, plant and equipment	16, 18	1 182
Investment revenue	16	(7 036)
(Increase)/decrease in inventories	5	(19 924)
(Increase)/decrease in contributions receivable	6	(85 117)
(Increase)/decrease in operating fund advances	7	(4 436)
(Increase)/decrease in prepayments and other current assets		(3 377)
Increase/(decrease) in accounts payable and accruals	10	70 514
Increase/(decrease) in due to/from United Nations agencies	10	54 832
Increase/(decrease) in employee benefits obligations	12	43 229
Increase/(decrease) in other liabilities and deferred revenue	13	10 636
Increase/(decrease) in advances for procurement activities	10	(18 150)
Increase/(decrease) in fund balances and reserves	Statement III	(23 064)
Net cash flows from operating activities		**184 564**
Cash flows from investing activities		
Purchase of property, plant and equipment	8	(9 600)
Proceeds of sale of property, plant and equipment		254
Purchase of investments		(513 011)
Maturities of investments		509 002
Interest received		15 569
Net cash flows from investing activities		**2 214**
Cash flows from financing activities		–
Net cash flows from financing activities		–
Net increase/(decrease) in cash and cash equivalents		**186 778**
Cash and cash equivalents at the beginning of the period	3	192 778
Foreign-exchange holding gains/(losses) on cash and cash equivalents		573
Cash and cash equivalents end of the period	3	**380 129**

Statement V

Comparison of budget to actual amounts for the year ended 31 December 2012

(Thousands of United States dollars)

Budget line	*Original budget*	*Final budget*	*Budget utilization*	*Variance/balance of resources*
Development activities				
Development effectiveness	26 805	26 549	26 394	155
Programmes	310 400	364 944	332 790	32 154
Management activities				
Recurring costs	113 328	112 525	105 757	6 768
Non-recurring costs	4 200	4 360	2 594	1 766
Total	**454 733**	**508 378**	**467 535**	**40 843**

UNFPA prepares its budget on a modified cash basis.

The scope of the budget for the purpose of this disclosure encompasses the institutional budget plus programme activities funded from unearmarked resources.

The "original budget" is based on the projected unutilized surpluses brought forward and the initial projections of contributions for the year. The "final budget" reflects the actual figures for both these elements at the time of the final allocation.

Expenses on a modified cash basis for budgeted activities are presented as "budget utilization".

Further details are presented in note 23.

Notes to the financial statements

Note 1
Mission statement, organizational objectives and reporting entity

Mission statement

The United Nations Population Fund (UNFPA) is the lead United Nations agency that expands the possibilities for women and young people to lead healthy sexual and reproductive lives. We support countries to promote and protect human rights and in using population data for policies and programmes to reduce poverty and to ensure that every pregnancy is wanted, every childbirth is safe and every young person's potential is fulfilled.

Organizational objectives

The Fund works to advance the right to sexual and reproductive health by accelerating progress towards achieving Millennium Development Goal 5 (to improve maternal health) with priority on advancing two key Millennium Development Goal targets: to reduce maternal deaths and to achieve universal access to reproductive health, including voluntary family planning. Through that focus, the Fund aims to improve the lives of underserved populations, especially women, adolescents and youth in more than 150 countries. The Fund's work is guided by its expertise in population dynamics, human rights and gender equality and driven by country needs. The Fund is a catalyst for action and advocacy, partnering with Governments, other United Nations agencies, civil society and the private sector to make a positive difference in the lives of billions of people, especially those most in need. In addition, the Fund helps countries to use population data to anticipate tomorrow's challenges through providing empowering technical guidance, policy advice, training and support, and it advocates for the mobilization of the resources and political will necessary to accomplish its work.

UNFPA is guided by, and promotes, the goals and principles of the Programme of Action of the International Conference on Population and Development (1994) and the key actions for the further implementation of that Programme of Action. In particular, UNFPA is committed to advancing reproductive rights, gender equality and male responsibility, and to the autonomy and empowerment of women and girls everywhere. All couples and individuals have the right to decide freely and responsibly the number and spacing of their children, as well as the right to the information and means to do so. UNFPA believes that safeguarding and promoting those rights and promoting the well-being of adolescents and youth, especially girls, are development goals in themselves.

UNFPA firmly believes that meeting these goals will contribute to improving the quality of life and to the universally accepted aim of achieving sustainable development for current and future generations. These goals are an integral part of all efforts to achieve sustained and sustainable social and economic development that meets human needs, ensures well-being and protects the natural resources on which all life depends. UNFPA recognizes that all human rights are universal, indivisible, interdependent and interrelated — they apply to all people in all cases.

UNFPA supports efforts to ensure a coherent, coordinated United Nations field presence, under the leadership of a strengthened resident coordinator in a collegial and participatory resident coordinator system. UNFPA plays an active and leading role in the inter-agency processes to facilitate progress towards the achievement of United Nations reform goals for greater development impact.

UNFPA continues to assist in the mobilization of resources from both developed and developing countries, following the commitments made by all countries in the Programme of Action to ensure that the goals of the International Conference on Population and Development are met.

Reaching the goals of the Programme of Action is also essential for achieving the Millennium Development Goals. These eight goals, which are fully aligned with the International Conference on Population and Development road map, have the overarching aim of reducing extreme poverty by half by 2015. UNFPA brings its special expertise in reproductive health and population and development issues to the worldwide collaborative effort of meeting the Millennium Development Goals. UNFPA, working in multiple partnerships, supports gender-sensitive policies and programmes to achieve the Millennium Development Goals. These partnerships are customized to national and local circumstances and take into account cultural diversity.

Reporting entity

UNFPA is a subsidiary organ of the General Assembly. It receives overall policy guidance from the General Assembly and the Economic and Social Council. On administrative, financial and programme matters UNFPA reports to its governing body, the Executive Board of the United Nations Development Programme (UNDP), UNFPA and the United Nations Office for Project Services (UNOPS).

UNFPA has its headquarters located in New York and operates in over 150 regional, subregional, country and liaison offices located around the world.

Note 2

Accounting policies

UNFPA adopted the International Public Sector Accounting Standards (IPSAS) effective 1 January 2012. The present financial statements are the first IPSAS compliant statements of the organization. As permitted by IPSAS, in the first year of compliance only limited comparative information for prior years is provided.

(a) Summary of significant accounting policies

The financial statements reflect the application of the following significant accounting policies:

(i) Accounting convention

These financial statements have been prepared on the accrual basis of accounting in accordance with the Financial Regulations and Rules of UNFPA and IPSAS.

(ii) Financial period

The period covered by these financial statements is the year ended 31 December 2012.

(iii) Unit of account

The unit of account used in the financial statements is the United States dollar. Where transactions have been made in other currencies, the equivalent in United States dollars is established using the appropriate United Nations operational rate of exchange.

The amounts in the statements and schedules are rounded to the nearest thousand dollars and in the notes to the nearest million or thousand dollars, as indicated. Totals may not add up due to rounding.

(iv) Cash and cash equivalents

Cash and cash equivalents include cash on hand, money market and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Financial instruments classified as cash equivalents include investments with a maturity of three months or less from the date of acquisition.

(v) Financial assets

UNFPA classifies financial assets into the following categories: at fair value through surplus or deficit; loans and receivables; held to maturity; and available for sale. The classification, which depends on the purpose for which the financial instruments are acquired, is determined at initial recognition and re-evaluated at each reporting date. UNFPA initially recognizes loans and receivables on the date they originate. All other financial assets are recognized initially on the trade date, which is the date UNFPA becomes a party to the contractual provision of the instrument.

The main types of financial assets held by UNFPA as at 31 December 2012 are classified as follows.

Financial asset	*Classification*
Cash and cash equivalent, contributions receivables, operating fund advances and other receivables	Loans and receivables
Investments	Held to maturity

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs. Subsequent to recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss, if applicable. The market value is also disclosed in the notes to these statements. These instruments are assessed at each reporting date to determine whether there is objective evidence of impairment, such as default of a debtor, at specific asset level.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intention and ability to hold to maturity. They are initially recorded at fair value plus transaction costs and subsequently recognized at amortized cost calculated using the effective interest method.

All financial assets maturing within one year of the balance sheet date are classified as current assets. Financial assets with a maturity date of more than one year after the balance sheet date are classified as non-current assets. Investment income is recognized as it accrues, under the effective interest method.

Securities held as investments are purchased with the intent to hold them to maturity. However, such securities may be sold in cases where there is a liquidity need or unexpected credit risk or where it is otherwise in the best interests of overall investment management.

The financial assets that can potentially expose UNFPA to a concentration of credit risk consist primarily of bonds and money market instruments. Investments are placed in high credit quality financial instruments as determined by reputable third-party rating agencies. The credit quality of the issuers is reviewed on an ongoing basis. In addition to placing investments only in high credit quality financial instruments, liquidity risk is managed by limiting the exposure to any one issue and to any one counterpart.

Hedging arrangements are entered into to protect the value of non-United States dollar pledges made by donors for regular resources, to make contribution revenue more predictable and stable and to facilitate resource distribution and better planning. Hedge premiums and hedging exchange gains and losses are included under "other expenses" (notes 17 and 18).

Investment, hedging and other treasury activities are outsourced by UNFPA to the United Nations Development Programme (UNDP) under a service level agreement.

(vi) Inventories

UNFPA inventory consists primarily of reproductive health-care commodities and medical and other equipment either for sale to third parties or to be distributed to beneficiaries either directly or through implementing partners in support of programme activities implemented on behalf of UNFPA.

Inventory is held for distribution at no cost to beneficiaries or at cost to third parties; as such, inventory is valued at the lower of cost and current replacement cost. Inventory is expensed when control is transferred from UNFPA to the recipient or beneficiary government.

As at the balance sheet date, inventory consists of items under UNFPA control either stored within warehouses or in transit and not yet physically received at their destination.

The cost of inventory in stock is determined using the weighted average cost basis, while cost of inventory in transit is based on the actual cost of the goods. The cost of inventories includes the cost of purchase plus other costs incurred in bringing them to their destination, determined based on standard costs.

Any item of property, plant and equipment on route to implementing partners as at the balance sheet date and under UNFPA control is recorded as property, plant and equipment-like inventory in transit based on the actual cost of goods.

(vii) Allowance for doubtful accounts

Contributions receivable. An analysis of outstanding unearmarked contributions receivable is carried out and, where collection is considered doubtful, an allowance is made. Any contributions receivable that are outstanding for more than three years are presumed to be doubtful. All contributions receivable are presented in statement I, net of the value of these allowances.

An analysis of outstanding earmarked contributions receivable is carried out, with particular reference to receivables that remain unpaid beyond their due time and/or at the expiry date of the agreement. Where collection is considered doubtful, an allowance is made.

Operating fund advances. An analysis of outstanding operating fund advances is carried out and, when recovery is considered doubtful, an allowance is made. Operating fund advances are presented in statement I, net of the value of these allowances.

Other assets. An analysis of the items included in other assets (staff advances, accounts receivable and other) is carried out and, where there is evidence that the recovery is doubtful, an allowance is made. These allowances are netted against assets in statement I.

(viii) Property, plant and equipment

The capitalization threshold for property, plant and equipment under UNFPA control is $1,000. Property, plant and equipment is capitalized when the asset is put in service and depreciated over its estimated useful life. A full month's depreciation is charged in the month of acquisition, while no depreciation is charged in the month of retirement for those classes of property, plant and equipment subject to depreciation.

Items purchased for implementing partners are expensed.

Leasehold improvements are recognized as property, plant and equipment valued at cost and depreciated over the lower of the remaining useful life of the improvement and the lease term. The capitalization threshold for leasehold improvements is $5,000.

Property, plant and equipment acquired through donation or nominal right to use are valued at cost by using the fair market value at the date of acquisition by UNFPA.

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses. Historical cost comprises the original purchase price plus any other costs directly attributable to bringing the asset to its location and condition. Repairs, maintenance and insurance costs are not capitalized but expensed as incurred.

Depreciation is provided for property, plant and equipment over its estimated useful life using the straight line method. Land and heritage assets are not subject to depreciation. The estimated useful life ranges for the different classes of property, plant and equipment are as follows:

Property, plant and equipment classes	*Estimated useful lives*
Vehicles	5 years
Furniture and fixtures	6 years
Communication and information technology equipment	2-10 years
Leasehold improvements	Shorter of lease term or useful life
Buildings	30 years
Land	No depreciation
Heritage assets	No depreciation

(ix) Impairment of property, plant and equipment

UNFPA property, plant and equipment is not held for the primary objective of generating a commercial return and is considered "non-cash generating" for the purpose of assessing impairment.

Impairment reviews are undertaken for all property, plant and equipment at least annually and before each reporting date. If any indication of impairment exists, the organization estimates the recoverable service amount of the affected items and writes them down accordingly.

(x) Intangible assets

Intangible assets are capitalized if their cost meets the threshold of $5,000, except for internally developed software, for which the capitalization threshold is $100,000. The capitalized value of the internally developed software excludes research and maintenance costs. Amortization is provided over the estimated useful life using the straight line method. The estimated useful life ranges for classes of intangible asset are as follows.

Intangible asset classes	*Estimated useful lives*
Software acquired separately	3-6 years
Software developed internally	3-6 years
Intangible assets under development	Not amortized
Licences and rights	Shorter of agreement term and useful life in range of 2-6 years
Copyrights	3-10 years

(xi) Financial liabilities

Financial liabilities are mainly accounts payable in respect of goods and services that have been received by UNFPA but not paid for as at the reporting date, unspent funds held for future refunds and other miscellaneous items such as unapplied cash deposits. They are classified as "other financial liabilities", and therefore are initially recognized at fair value and, when applicable, subsequently measured at amortized cost using the effective interest rate method.

Derivatives are classified as "financial liabilities at fair value through surplus or deficit". These liabilities are measured at fair value at each reporting date and changes therein are recognized in surplus or deficit in the statement of financial performance. Liabilities in this category are classified as current liabilities if they are expected to be settled within 12 months of the reporting date. As at 31 December 2012, UNFPA had no open foreign exchange derivative instruments.

(xii) Employee benefit liabilities

Employees are defined as staff members, within the meaning of Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. In practice, this means those persons with a temporary, fixed-term or continuing contract, including Junior Professional Officers.

Obligations for new employees are recognized from the date they report to their duty station.

UNFPA employee benefits are classified into short-term and post-employment benefits.

1. *Short-term employee benefits*

Short-term employee benefits are employee entitlements that are due to be settled within 12 months after the end of the reporting period in which the employee renders the related service. These benefits are comprised of accumulated annual leave, home leave and other short-term benefits.

Annual leave is an accumulating compensated absence up to a maximum of 60 days, whereby an employee is entitled to monetary settlement of this balance upon separation from service. Therefore the organization recognizes as a liability the value of the total accumulated leave days of all staff members as of the balance sheet date.

Home leave travel is available to eligible staff and dependants serving in qualifying countries. The liability represents the expected travel cost of the next home leave entitlement for qualifying staff, as adjusted for the proportion of service yet to be performed until the benefit is vested.

Owing to the short-term nature of these entitlements, the liability is not discounted for the time value of money.

2. *Post-employment employee benefits*

Post-employment benefits provided by UNFPA are:

- After-service health insurance, which provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependants. The after-service health insurance liability represents the present value of the share of UNFPA medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff.

- End-of-service entitlements, which comprise a repatriation grant, shipping costs and travel expenses. A liability is recognized from when the staff member joins UNFPA and is measured as the present value of the liability for settling these entitlements when the staff member leaves UNFPA employment.

These benefits are categorized as defined benefit plans. Defined benefit plans are those where UNFPA obligation is to provide agreed benefits and therefore UNFPA bears actuarial risk; that is, that the benefits will cost more or less than expected.

The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Movements in the liability from actuarial gains and losses are recognized in net assets. All other changes in the liability are recognized in the statement of financial performance in the period in which they occur.

The discount rate used in determining the present value of the liability for post-employment benefits is based on high-quality corporate bond rates.

United Nations Joint Staff Pension Fund

UNFPA is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNFPA and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNFPA of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNFPA has treated this plan as if it were a defined contribution plan in line with the requirements of the International Public Sector Accounting Standard 25. UNFPA contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

(xiii) Revenue

UNFPA is primarily funded from voluntary contributions that fall into two distinct categories.

Unearmarked contributions (also referred to as regular, core or unrestricted contributions) represent resources that are unrestricted as to use.

Earmarked contributions (also referred to as other, non-core or restricted contributions) represent resources that are earmarked by the donors as to their use.

These include co-financing, the Junior Professional Officers programme and procurement services funds. Co-financing includes cost-sharing, thematic and other trust funds.

For both types of contribution, revenue is recognized upon the earlier of the receipt of cash or signing of a binding agreement. Very exceptionally where resources are provided subject to specific conditions or when contributions are explicitly given for a specific year, recognition may be deferred until those conditions have been satisfied.

UNFPA participates in pooled funding arrangements with other United Nations organizations and acts as the administrative agent for some pooled funds. The UNFPA share of these pooled contributions is recognized at the time of disbursement of those funds by the administrative agent.

Contributions of goods in kind are recognized as contributions on the face of the financial statements. Contributions of services in kind are presented in the notes if material. Contributions in kind are initially recorded at their fair value at the date of receipt determined by reference to observable market values or by independent appraisals.

(xiv) Refunds to donors

Refunds arising on the expiry or termination of agreements are recognized when instructions are received from the donor requesting repayment. All refunds to donors are shown as a reduction of contributions revenue. Refunds to donors are disclosed in statement II and schedule B.

(xv) Expenses

In 2012, 29 per cent of programme activities were implemented by Governments and non-governmental organizations (NGOs). Although UNFPA cannot impose a specific basis of accounting on such organizations, these implementing partners are required to report expenses based on the completion of activities funded by UNFPA.

Where the programme activities are implemented by Governments and NGOs, these implementing partners provide UNFPA with reports documenting their use of resources, which are the basis for recording programme expenses in the UNFPA accounts. Where UNFPA decides to advance funds to these implementing partners, these advances are made on the basis of cash projections and are liquidated on the basis of the reports submitted by the implementing partners. Advances to implementing partners that remain outstanding at the end of the year are classified as "operating fund advances" on statement I.

Where the programme activities are implemented by United Nations agencies, these implementing partners also provide UNFPA with reports documenting their use of UNFPA resources. The reports define expenses according to the accounting policies of the United Nations agency reporting the expenses.

The support costs incurred by and paid to implementing partners are reported as expenses under "funds utilized by implementing partners".

The indirect costs charged to activities funded by earmarked contributions to cover costs related to the management and administration of such activities are eliminated and not shown as expenses except in note 24 (b) and schedule B. Indirect costs are recovered at a rate of 5 per cent on nationally executed cost-sharing expenses financed by programme countries, 7 per cent on all other co-financed expenses and 5 per cent on third-party procurement expenses.

(xvi) Exchange gains and losses

Exchange gains and losses from contributions are included in "other revenue". All other exchange gains and losses resulting from exchange rate movements related to revaluation of cash and cash equivalents, investments, advances and other transactions are reported separately within "other revenue" and "other expenses", respectively. All monetary assets and liabilities held in currencies other than the United States dollar are revalued using the United Nations operational rate of exchange in effect as at 31 December 2012.

(xvii) Leases

Leases are classified as either operating or finance leases.

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an item of property, plant and equipment to UNFPA, regardless of whether or not the legal title is eventually transferred to UNFPA. The lease term for a finance lease covers the majority of the estimated useful life of the leased item. Property, plant and equipment acquired under a finance lease is recorded in the asset registry and is subject to depreciation in the same way as purchased property, plant and equipment. The value capitalized equals the lower of the fair value of the leased item and the present value of the minimum lease payments as calculated at the inception of the lease.

Operating leases are leases other than finance leases. Operating lease expenses are recognized on a straight line basis over the lease term. The value of future lease payments within the current lease term is disclosed in the notes to these financial statements.

(xviii) Donated rights to use

In a number of locations UNFPA occupies premises at no cost through donated rights to use agreements granted by the host Governments. Based on the length of agreements (or "lease term") and termination clauses, these donated rights to use can be similar to nominal operating leases or nominal finance leases. In the latter case, UNFPA is given control over premises for as long as the organization operates in the country and uses the premises.

In the case of operating lease similar agreements (principally short term), an expense and a corresponding revenue amount equal to the annual market rent of similar premises is recognized in the financial statements. In the case of finance lease similar agreements (principally long term), the fair market value of the property is capitalized and revenue is recognized immediately upon assuming control of the premises for the same amount, unless the property is transferred to UNFPA with specific conditions. In these situations, a deferred revenue amount is recognized equal to the entire fair market value of the property (or respective share) occupied by UNFPA, which is progressively recognized as revenue and offsets the corresponding depreciation charged over the shorter of the useful life of the property and the right to use term.

(xix) Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount. UNFPA recognizes provisions when all of the following three requirements are satisfied: (1) UNFPA has a present legal or constructive obligation as a result of past events; (2) it is probable that UNFPA will be required to settle the obligation; and (3) a reliable estimate can be made of the obligation.

Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNFPA; or present obligations that arise from past events but that are not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; or the amount of the obligations cannot be reliably measured.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNFPA.

(xx) Related parties disclosures

Relevant transactions with third parties related to UNFPA are disclosed. Related parties to UNFPA are those with the ability to exercise significant influence over UNFPA financial and operating decisions. For UNFPA these are key management personnel and close members of the family of key management personnel, identified as members of the UNFPA Executive Committee and the Director of the Division for Oversight Services and the Chiefs of the Procurement and Management Information Services branches. Any other individual acting in one of these roles as officer-in-charge for three months or more in a calendar year is also included. UNFPA discloses the value of transactions with these parties, including salaries and any loan obtained at conditions not generally available.

The UNFPA Executive Board is also considered a related party of the organization as a whole; there are no transactions to be reported. Significant financial transactions occur with UNDP, but they are not separately disclosed, as the organization does not have the power to influence financial and operating policy decisions of UNFPA and given that all transactions for services provided to UNFPA occur under normal arm's length conditions.

(xxi) Commitments

Commitments are future expenses to be incurred by UNFPA on contracts entered into by the reporting date and that UNFPA has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to UNFPA in future periods, non-cancellable minimum lease payments and other non-cancellable commitments. The value of commitments as at 31 December is not recognized in the statement of financial position and is disclosed in the notes to financial statements. Commitments related to employment contracts are excluded from this disclosure.

(xxii) Procurement services

Following approval by the Governing Council at its fortieth session, in 1993, UNFPA receives funds for the procurement of supplies, equipment and services on behalf and at the request of Governments, the United Nations and its funds and programmes, and specialized agencies, other intergovernmental institutions and non-governmental organizations. UNFPA receives a fee in respect of these procurement services at a rate established by the Executive Board, which was 5 per cent for 2012.

These services have been reported under schedule C and schedule E. Note 16 provides further disclosure on the excess of revenue over expenses.

(xxiii) Use of estimates

These financial statements necessarily include amounts based on estimates and assumptions by management. Estimates include, but are not limited to: fair value of land and buildings, pension and other post-employment benefits obligations, amounts for litigations, accrued charges, contingent assets and liabilities, useful lives and degree of impairment of fixed assets. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

(b) Changes in accounting policies

(i) Cash, cash equivalents and investments

In 2012, UNFPA started showing financial instruments with duration of three months or less from acquisition date as cash equivalents. This increased the value of cash and cash equivalents and reduced the value of investments reported in statement I and in notes 3 and 4. In particular, at the end of 2011 UNFPA reported an amount of cash and cash equivalents of $9.1 million. The restated amount as at 1 January 2012 equals to $192.8 million, which includes $183.7 million related to money market instruments, time deposits, commercial papers and discount notes held as of this date. Based on the adoption of the effective interest rate method, the value of bonds as at 1 January 2012 was increased by $7,000.

(ii) Inventories

From 1 January 2012, UNFPA no longer expenses its inventory at the time of acquisition. Instead inventory is recognized as part of the organization's assets until control is transferred to implementing partners or beneficiaries. Initial recognition of inventories as at 1 January 2012 resulted in a one-time increase in assets and a corresponding increase in fund balances and reserves of $15.8 million. As at 31 December 2012, UNFPA holds $35.7 million in inventory, which under the previous accounting policy would have been expensed (note 5).

(iii) Accounts receivable

In 2012 UNFPA changed its accounting treatment of education grants based on IPSAS requirements. Previously, UNFPA recognized education grants as advances for the entire scholastic year and only recognized expenses at the end of that year after claims were presented by staff. From 2012, education grants advances are amortized on a monthly basis over the scholastic year. The effect of this change in accounting policy is that education grants related to the part of academic years falling prior to 31 December 2011 were charged to funds and reserves. The effect of this change on opening balances is a decrease in accounts receivable of $1.4 million.

(iv) Property, plant and equipment

Effective 2012, UNFPA changed its accounting policy from immediate expensing to capitalization of property, plant and equipment. All property, plant and equipment with cost equal to or greater than capitalization threshold of $1,000 and useful life of more than one year are reflected in the organization's statement of financial position and depreciated over their useful lives.

Property, plant and equipment in existence and in use as at 1 January 2012 and satisfying specified conversion criteria were capitalized. Their remaining (un-depreciated) value as at that date was recognized as an asset through a credit to cumulative surplus. All attractive items and heritage assets are tracked for custodial purposes but with no financial impact.

All property, plant and equipment acquired through in-kind donations or nominal donated rights to use (i.e., without transfer of legal title to UNFPA) and whose fair value exceeded the $1,000 threshold were capitalized at their fair market values. Free use of premises is the principal in-kind donation received by UNFPA.

The initial recognition of property, plant and equipment as at 1 January 2012 resulted in a one-off increase in assets and a corresponding increase in fund balances and reserves of $31.6 million (statement III). This represents the net book value of the assets capitalized as at that date.

Additions during 2012 amounted to $9.6 million, which under the previous accounting policy would have been recorded as expenditures. Depreciation for $7.8 million and losses on disposals of assets for $1.4 million were recorded as expenses that would have previously not been recorded.

(v) Intangible assets

Effective 2012, intangible assets held by the organization are capitalized as assets and are reflected in the statement of financial position. In accordance with International Public Sector Accounting Standard 31, UNFPA applied the Standard on intangible assets prospectively; therefore, there are no opening balances for this class of assets reported as at 1 January 2012. For 2012 UNFPA does not have any intangible assets.

(vi) Employee benefits

From 1 January 2012 and consistent with IPSAS, UNFPA changed its method of calculation of the accumulated annual leave liability from an actuarial basis to the actual basis in line with its determination as a short-term benefit. Under this basis, the actual number of accumulated leave days for UNFPA staff is valued based on the current value as at the balance sheet date rather than being discounted. As a result of this change, the annual leave liability value as at 1 January 2012 increased from $11.1 million to $17.3 million.

In 2012 UNFPA recognized home leave travel liabilities for the first time. This resulted in a new liability recognized as at 1 January 2012 of $2.1 million.

(vii) Leases

Effective 2012, initial recognition of a finance lease results in an asset and a liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Leased assets are depreciated over the shorter period between the lease term and their useful lives in accordance with the accounting policies for property, plant and equipment. For 2012 UNFPA did not have any commercial finance leases.

(viii) Donated rights to use

In a number of locations UNFPA benefits from donated rights to use premises provided by the host Governments. Usually, the donated rights to use are similar to nominal operating leases. In these cases, UNFPA recognizes an expense and revenue for a value equal to the annual rent that the organization should have paid for the occupied premises. In 2012, this amount was $3.7 million, which under the previous policy would not have been recorded.

In a limited number of cases the donated rights to use are similar to finance leases. In these cases the organization records an asset at the market value of the premise and a liability of the same value in recognition of the "condition" over the transferred asset. On a yearly basis, UNFPA recognizes revenue equal to the premises' depreciation charge. At 1 January 2012 UNFPA recognized both an asset and a liability of $5.4 million related to these arrangements, which under the previous policy would not have been recorded. In 2012 UNFPA also recognized a total depreciation expense of $0.2 million and revenue of equal amount related to these arrangements, which under the previous policy would not have been recorded.

(ix) Junior Professional Officers programme

In 2012 UNFPA changed its accounting treatment related to the Junior Professional Officers programme. The contribution paid by the donors of the programme to the United Nations system organizations is composed of two main amounts: (i) estimated staff costs; and (ii) contribution to administrative and overhead costs. A peculiarity of the programme at UNFPA is that the large majority of donors transfer their contributions directly to UNDP, which performs the administrative activities related to the programme on behalf of UNFPA. In the previous period, UNFPA recorded in its books and disclosed in its financial statements only the revenue, expenses, payables and receivables to and from donors related to the Junior Professional Officer staff for whom contributions were received directly from the donors. Consistent with IPSAS requirements, in 2012 UNFPA recorded and disclosed amounts related to all of its Junior Professional Officer staff. As a consequence, UNFPA recorded a receivable from UNDP of $7.5 million, which would not have been previously recorded.

(x) Transitional provisions

UNFPA has used transitional provisions as follows:

- As at 1 January 2012, UNFPA applied the transitional provision in International Public Sector Accounting Standard 17, Property, Plant and Equipment, and did not capitalize items of its leasehold improvements
- International Public Sector Accounting Standard 25, Employee Benefits, was applied prospectively; UNFPA does not present comparative amounts for the previous four reporting periods with regard to the present value of the defined benefit obligations and experience adjustments arising on plan liabilities
- International Public Sector Accounting Standard 31, Intangible Assets, was applied prospectively; as a result, intangible assets that were acquired or internally developed before 1 January 2012 have not been capitalized
- International Public Sector Accounting Standard 28, Financial Instruments: Presentation; Standard 29, Financial Instruments: Recognition and Measurement; and Standard 30, Financial Instruments: Disclosures, are effective for annual periods beginning on or after 1 January 2013; UNFPA opted for an earlier implementation and applied them as at 1 January 2012
- International Public Sector Accounting Standard 1, Presentation of Financial Statements: only limited comparative information for prior years is provided.

(xi) Differences in presentation and comparisons with previous financial statements

UNFPA, which fully adopted IPSAS on 1 January 2012, had incorporated a number of IPSAS-inspired policies and disclosures in its financial statements for the biennium ended 31 December 2011. The most notable changes between the presentation of these financial statements and the financial statements for the year ended 31 December 2012 are as follows:

- As permitted by the IPSAS standards for the first year of adoption, no comparative information is shown for the previous financial period throughout these statements, with the exception of statement I and related notes, which show comparative figures as at 1 January 2012
- The inventory and property, plant and equipment asset categories are disclosed in the statement of financial position (statement I)
- Employee benefits are now split between short-term and post-employment benefits based on the nature of the underlying benefit and between current and non-current benefits based on the estimated timing of payment
- The statement of financial performance (statement II) and related schedules (schedules D and E) show the breakdown of expenses by nature for funds directly utilized by UNFPA
- The statement of changes in net assets (statement III) and note 14 (unearmarked resources) show the financial impact on net assets of the changes in accounting policies related to transition to IPSAS
- The cash flow statement (statement IV) includes new lines to mirror the changes in accounting policies and adoption of IPSAS
- The statement on comparison of budget to actual amounts has been added in compliance with IPSAS

- Schedule B presents breakdown by donor of adjustments to 2012 opening fund balances related to IPSAS adoption
- The following notes have been added: Inventories (note 5); Property, plant and equipment (note 8); Intangible assets (note 9); Finance lease liability (note 11); Related parties disclosures (note 21); Events after the reporting date (note 22); Presentation of budget information and comparison between actual amounts on a budget comparable basis and actual amounts in financial statements (note 23); Segment reporting (note 24); Financial risk management (note 25); and Commitments (note 26).

Note 3
Cash and cash equivalents

Cash and cash equivalents comprise:

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Cash on hand	10	21
Cash at banks	22 566	9 031
Money market funds*	32 565	35 628
Time deposits*	125 000	63 108
Commercial paper and discount notes*	199 988	84 990
Total	**380 129**	**192 778**

* In accordance with UNFPA policy, financial instruments with a duration of less than three months are classified as cash equivalent.

Cash requirements for immediate disbursements are held in bank accounts.

Note 4
Investments

Investments with maturity of three months or longer held as at 31 December 2012 are as follows:

(Thousands of United States dollars)

	As at 31 December 2012		*As at 1 January 2012 (restated)*	
	Market value	*Amortized cost*	*Market value*	*Amortized cost*
Bonds	525 819	523 311	534 092	531 573
Commercial paper and discount notes*	24 971	24 972	19 984	19 982
Total	**550 790**	**548 283**	**554 076**	**551 555**
Of which:				
Maturing within one year	237 024	236 635	389 009	388 839
Maturing after one year	313 766	311 648	165 067	162 716
Total	**550 790**	**548 283**	**554 076**	**551 555**

* Financial instruments with maturity longer than three months.

As a consequence of adoption of IPSAS, the value of bonds held by UNFPA as at 31 December 2012 increased by $7,000 as per note 2 (b) (i).

Of the total investments of $548.3 million, $265.9 million are restricted in use as follows:

- Operational reserve: $87.2 million
- Funding for employee benefits liability: $135.2 million
- Private endowment trust: $38.5 million
- Reserve for field accommodation: $5.0 million

The average maturity of UNFPA investment portfolio as at 31 December 2012 is 9.1 months. The average maturity as at 31 December 2011 was 8.7 months.

In 2012 the average yield on investment portfolio was 1.0 per cent. In 2011, the average yield on investments was 1.4 per cent.

The book values of bonds as at the reporting date were as follows:

(Thousands of United States dollars)

	As at 31 December 2012	
Bonds	*Market value*	*Amortized cost*
Obligations of commercial banks	70 261	70 298
Non-United States sovereign obligations	52 294	51 926
Supranational organizations	247 477	246 752
Corporate bonds	155 787	154 335
Total	**525 819**	**523 311**

Movements in bonds during 2012 were as follows:

(Thousands of United States dollars)

	2012	*2011*
Opening balance	**531 566**	**445 775**
Effective interest rate adjustment	7	–
Restated opening balance 2012	**531 573**	–
Add: Purchases	438 092	781 533
Less: Maturities	(439 002)	(683 677)
Amortization	(7 352)	(10 956)
Unamortized discount/premium	–	(1 109)
Closing balance	**523 311**	**531 566**

Note 5
Inventories

Inventories held by UNFPA as at 1 January 2012 and 31 December 2012 were as follows:

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Reproductive health-care goods	32 697	13 936
of which:		
In transit	26 256	5 722
In stock	6 441	8 214
Property, plant and equipment-like inventory in transit	3 046	1 883
Total inventory	**35 743**	**15 819**

Inventory in transit as at the reporting date represents items procured internationally and under control of UNFPA but not yet physically handed over to the beneficiaries or implementing partners.

The inventory movements during 2012 are summarized as follows:

(Thousands of United States dollars)

Inventory held as at 1/1/2012	**15 819**
Additions	131 591
Issues	(111 663)
Inventory written-off/adjustments	(4)
Inventory held as at 31/12/2012	**35 743**

Note 6
Contributions receivable, prepayments and other current assets

Contributions receivable as at 31 December 2012 are as follows.

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Exchange transactions		
Contributions receivable (current)	237	955
Contributions receivable (non-current)	–	–
Non-exchange transactions		
Contributions receivable (current)	127 508	60 289
Unearmarked resources	2 745	1 528
Earmarked resources	124 763*	58 761
Contributions receivable (non-current)	50 276	31 660

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Unearmarked resources	–	–
Earmarked resources	50 276*	31 660
Total	**178 021**	**92 904**

* Earmarked contributions receivable as at 31 December 2012 comprise co-financing of $173.8 million and Junior Professional Officers programme of $1.2 million.

Contributions receivable are presented net of allowance for doubtful accounts.

Exchange transactions are defined as transactions for which UNFPA provides goods or services to third parties and receives from them an approximately equal value in exchange. These transactions are similar to "commercial" exchanges. Based on the business model of UNFPA, the procurement activities on behalf of third parties are currently the only exchange transactions. Non-exchange are those transactions for which UNFPA does not receive approximately equal value for goods/services provided. UNFPA unearmarked and earmarked contributions are classified as non-exchange transactions.

The distinction between current and non-current receivables is based on the expected timing of collection. Current contributions receivable are expected to be collected within 12 months from the reporting date and non-current receivables are expected to be collected after that date.

Contributions receivable from unearmarked resources represent amounts committed in current and prior years but not yet collected by the end of the reporting period. Contributions receivable from earmarked resources mainly relate to amounts that will become due and to be collected in future years in relation to multi-year donor agreements.

Ageing analysis

Details of non-exchange contributions for current and prior years that were recognized as revenue but were not paid at 31 December 2012 are as follows.

(Thousands of United States dollars)

	As at 31 December 2012		*As at 1 January 2012 (restated)*	
	Unearmarked	*Earmarked (Co-financing)*	*Unearmarked*	*Earmarked (Co-financing)*
2008			281	
2009	233		258	
2010	287		329	
2011	230		979	43 034
2012	2 230	7 297	–	
Contributions receivable as at 31 December	**2 980**	**7 297**	**1 847**	**43 034**

	As at 31 December 2012		*As at 1 January 2012 (restated)*	
	Unearmarked	*Earmarked (Co-financing)*	*Unearmarked*	*Earmarked (Co-financing)*
Adjustment for unrealized exchange losses	(2)		(38)	
Allowance for doubtful account	(233)		(281)	
Contributions receivable not yet billed at 31 December		166 496	–	47 387
Total	**2 745**	**173 793**	**1 528**	**90 421**

A breakdown of contributions receivable from unearmarked and earmarked resources by donor is detailed respectively in schedules A and B (these schedules do not include the allowances for doubtful accounts).

Allowance for doubtful contributions receivable

An analysis of each contribution receivable is carried out and where collection is considered doubtful, full allowance is made. Any contribution receivable for unearmarked resources outstanding for more than three years is presumed to be doubtful.

The movement in the allowance in 2012 is summarized as follows:

(Thousands of United States dollars)

	2012	*2011*
Allowance at 1 January	**(281)**	**(808)**
Contributions receivable for which collection is now considered doubtful	(233)	(281)
Contributions receivable written off	210	119
Recoveries of contributions receivable for which collection was previously considered doubtful	71	689
Allowance at 31 December	**(233)**	**(281)**

Prepayments and other current assets

Prepayments and other current assets comprise the following.

(Thousands of United States dollars)

Prepayments and other current assets	*As at 31 December 2012*	*As at 1 January 2012 (restated)*
Advances to staff	1 587	1 460
Accrued interest	3 261	4 512
Miscellaneous accounts receivable and prepayments	9 274	9 138
Due from other United Nations agencies	–	49
Receivables from procurement activities	3 516	–
Less allowance for doubtful accounts receivable	(461)	(108)
Total	**17 177**	**15 051**

Note 7
Operating fund advances

Operating fund advances by category of implementing partners are as follows.

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Governments	6 315	5 419
Intergovernmental institutions and NGOs	2 971	3 612
United Nations agencies	4 461	579
Less allowance for doubtful advances	(52)	(351)
Total	**13 695**	**9 259**

Note 8
Property, plant and equipment

(Thousands of United States dollars)

	Buildings	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Leasehold improvements*	*Assets under construction and not yet available*	*Total*
Cost							
As at 1 January 2012	8 872	3 608	16 461	29 118	3 352	48	61 459
Additions	57	917	2 565	3 779	557	1 725	9 600
Disposals	(6)	(460)	(3 282)	(5 313)	(158)	(48)	(9 267)
As at 31 December 2012	**8 923**	**4 065**	**15 744**	**27 584**	**3 751**	**1 725**	**61 792**
Accumulated depreciation							
As at 1 January 2012	191	1 562	11 041	16 615	487	–	29 896
Depreciation charges	297	497	2 111	4 180	678	–	7 763
Disposals	–	(283)	(3 055)	(4 439)	(53)	–	(7 830)
As at 31 December 2012	**488**	**1 776**	**10 097**	**16 356**	**1 112**	**–**	**29 829**
Net book value as at 1 January 2012	**8 681**	**2 046**	**5 420**	**12 503**	**2 865**	**48**	**31 563**
Net book value as at 31 December 2012	**8 435**	**2 289**	**5 647**	**11 228**	**2 639**	**1 725**	**31 963**

A physical count of assets was performed and the results reconciled to the asset values in the asset register as at 31 December 2012. This physical count and the corresponding asset value are certified by both headquarters and the country offices.

Assets under construction primarily pertain to the construction of staff accommodation premises in South Sudan ($1.1 million). Assets not yet available are items under control of UNFPA but not yet put in use by the reporting date.

The value of outstanding commitments for capital purchases as at 31 December 2012 is $2.5 million.

As at 31 December 2012, the cost of fully depreciated property, plant and equipment items, which were still in use, amounted to $13.4 million.

Note 9
Intangibles

As at 31 December 2012 UNFPA has no assets that meet the recognition criteria for intangible assets.

Note 10
Accounts payable and accruals

Accounts payable and accruals comprise the following.

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Accounts payable	23 179	19 872
Administrative agent payable	64 147	11 214
Advance from procurement activities	8 175	26 325
Due to United Nations agencies	122 873	68 041
Operating fund payable	3 004	–
Payable in respect of unspent balances on expired funds	4 841	4 622
Accruals liability	24 837	13 786
Total	**251 056**	**143 860**

"Administrative agent payable" refers to amounts received and administered by UNFPA for programme activities to be implemented by a pool of United Nations system organizations and to be distributed on the basis of an agreed programme of work.

"Due to United Nations agencies" mainly refers to amounts owed to UNDP in respect of services provided by them to UNFPA for administrative efficiency and in order to leverage the common enterprise resource planning system. Such services are governed by service level agreements that, inter alia, determine the service cost structure.

Note 11
Finance lease liability

UNFPA does not have any commercial finance leases as at 31 December 2012.

Note 12
Employee benefits

Employee benefits liabilities reflect liabilities for accumulated annual leave, home leave, repatriation benefits, after-service health insurance and other benefits, as shown below.

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Short-term benefits		
Accumulated annual leave	20 454	17 349
Accumulated home leave	2 900	2 052
Other employee benefits	35	48
Post-employment benefits		
Repatriation benefits (inactive staff)*	546	598
Repatriation benefits (active staff)	1 918	1 967
After-service health insurance	1 596	1 272
Total current employee benefits liabilities	**27 449**	**23 286**
Repatriation grant (active staff)	19 932	18 808
After-service health insurance	199 959	162 017
Total non-current employee benefits liabilities	**219 891**	**180 825**
Total employee benefit liabilities	**247 340**	**204 111**

* Inactive staff are those who have already separated from UNFPA by the reporting date.

Accumulated home leave

This liability represents the accumulated amount of the anticipated travel costs for eligible staff and their dependants for their next home leave as at the reporting date. It is accrued as service is rendered, is not discounted and is not compensatable upon end of service.

Post-employment benefits

The liabilities for repatriation benefits for active staff and for after-service health insurance coverage were determined on the basis of an actuarial valuation as at 31 December 2012, which was undertaken by an independent, qualified actuarial firm.

Repatriation benefits

Upon end of service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based upon length of service, travel and removal expenses. These benefits are collectively referred to as repatriation benefits.

The major assumptions used by the actuary for determining the repatriation benefits liability as at 31 December 2012 were a discount rate of 4 per cent; annual salary increase ranging from 4 per cent to 6.9 per cent based on age and category of staff members, and travel cost increase of 2.5 per cent per annum.

On the basis of these assumptions, the present value of the accrued liability for repatriation benefits for active staff as at 31 December 2012 was estimated at $21.9 million.

A full provision has been made for those ex-staff members who at the end of 2012 have not as yet claimed their repatriation entitlements but for which the organization remains liable.

After-service health insurance

Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of UNFPA, provided they have met certain eligibility requirements, including 10 years of participation in a UNFPA health plan for those who were recruited after 1 July 2007, and 5 years for those who were recruited prior to this date. This benefit is referred to as after-service health insurance.

The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2012 were a discount rate of 4 per cent and health-care costs escalation rates of 7 per cent in 2013 for United States medical plans and 8 per cent for non-United States medical plans; grading down to 4.5 per cent in 2027 and later years for both United States and non-United States medical plans. Retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits. For comparison, the assumptions used to determine the liabilities for after-service health insurance as at 31 December 2011 were a discount rate of 4.5 per cent; health-care escalation rates of 7 per cent in 2012, grading down to 4.5 per cent in 2027 and later years for United States medical plans, and 8 per cent in 2012 grading down to 4.5 per cent in 2027 and later years for medical plans outside of the United States. In determining the valuation of the organizations residual after-service health insurance liability, contributions from all plan participants are considered. Thus, contributions from retirees are deducted from the gross liability, and commencing with the 31 December 2009 valuation, a portion of the contributions from active staff are also deducted to arrive at the organization's residual liability in accordance with cost sharing ratios authorized by the General Assembly.

These ratios require that the organization's share of costs shall not exceed one half for non-United States health plans, two thirds for United States health plans, and three quarters for the Medical Insurance Plan. This refinement in determination of plan participant contributions is reflective of the fact that both active and retired staff participates in the same health insurance plans and that their collective contributions serve to meet the approved cost sharing ratios.

On the basis outlined above, the present value of the accrued liability for after-service health insurance as at 31 December 2012, net of contributions from plan participants, was estimated at $201.6 million, of which $1.6 million is related to current portion and $200 million to non-current portion of the liability.

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012*
Gross liability	317 004	257 513
Offset from contributions made by plan participants	(115 449)	(94 224)
Net liability	**201 555**	**163 289**

Further to the assumptions above, it is estimated that the present value of the net liability would increase by 26 per cent or decrease by 19 per cent should assumed medical care costs be increased or decreased by 1 per cent, respectively, all other assumptions being constant. Similarly, it is estimated that the accrued liability would increase by 26 per cent or decrease by 20 per cent should the discount rate be decreased or increased by 1 per cent, respectively, all other assumptions being constant.

Actuarial valuation

Liabilities arising from after-service health insurance and end-of-service benefits (repatriation benefits) are determined by consulting independent actuaries. Actuarial assumptions are required to be disclosed in the financial statements in accordance with International Public Sector Accounting Standard 25.

An actuarial valuation was conducted by the actuaries and used for the 1 January 2012 IPSAS opening balances. The same census data was rolled forward by the actuaries and used to establish the obligation as at 31 December 2012.

The actuarial valuation of the defined benefits obligation is determined by discounting the probable future payments required to settle the obligation resulting from employee service rendered in the current and prior periods. The actuary has used the spot rates from the Citigroup Pension Discount Curve as the basis for determining the discount rate for the actuarially valued defined benefit plans.

The actuarial valuation also includes actuarial losses resulting from changes in the major assumptions used by the actuary since the previous valuation. Another factor affecting the actuarial valuation is the contributions made by the plan participants. These contributions, identified in the table below as “net of participant contributions”, are deducted from the obligation to determine the residual obligation of UNFPA.

IPSAS requires that all assumptions, such as discount rate and health-care cost trend assumption, are based on the same underlying inflation rate assumption. The inflation rate assumption of 2.5 per cent was used in the 31 December 2012 actuarial valuation consistent with 2011 actuarial expectations.

The 31 December 2012 obligations, annual expense and contributions were based on projections from the 31 December 2011 valuation with adjustments for the change in the discount rate at year end. Minor differences between UNFPA actual annual expenses costs and the projections in the actuarial report were noted and adjusted for in the statement of financial performance.

The increase in the repatriation benefits and after-service health insurance liability during 2012 is due to the following effects.

(Thousands of United States dollars)

Post-employment benefit liabilities	*After-service health insurance*	*Repatriation benefits (active staff)*	*Total*
As at 1 January 2012	163 289	20 775	184 064
Current service cost	10 172	1 132	11 304
Interest cost	7 319	890	8 209
Total expenses recognized in 2012	17 491	2 022	19 513
Benefits paid (net of participant contributions)	(1 301)	(2 011)	(3 312)
Actuarial (gain)/loss	22 076	1 064	23 140
As at 31 December 2012	**201 555**	**21 850**	**223 405**

"Current service cost" is the increase in liability resulting from benefits vested to employees through services in 2012. "Interest cost" is the increase resulting from future employee benefits being closer to settlement. "Benefits paid" corresponds to disbursement of employee benefits in the current year. "Actuarial gains or losses" arise when the actuarial assessment differs from the long-term expectation on the obligations. They result from experience adjustments (differences between the previous actuarial assumptions and what has actually occurred) and the effects of change in actuarial assumptions.

The actuarial loss owing to a decrease in the discount rate used for the actuarial valuation is recognized directly as change in net assets (statement III).

(Thousands of United States dollars)

Actuarial losses/(gains)	*After-service health insurance*	*Repatriation benefits (active staff)*	*Total*
As at 1 January 2012	67 223	1 030	68 253
Current period	22 076	1 064	23 140
As at 31 December 2012	**89 299**	**2 094**	**91 393**

Funding for employee benefit liabilities

As at 31 December 2012, the unfunded portion of after-service health insurance and other staff benefit liabilities was as follows:

(Thousands of United States dollars)

	As at 31 December 2012		
Funding of employee benefits liabilities	*Accrued liability*	*Funded liability*	*Unfunded liability*
After-service health insurance	201 555	131 397	70 158
Repatriation benefits	22 396	546	21 850
Annual leave	20 454	3 271	17 183
Home leave	2 900	203	2 697
Total	**247 305**	**135 417**	**111 888**

In 2012, the liability has been funded as follows:

- Transfers from fund balances otherwise available for programming of $12.5 million
- Interest earned on the already-funded portion of the after-service health insurance liability of $1.1 million
- Cost accrual for after-service health insurance (net of payment of premiums), repatriation benefits, annual leave and home leave resulting from payroll charges made during 2012 of $7.2 million.

(Thousands of United States dollars)

	As at 1 January 2012 (restated)			*As at 31 December 2012*
	Unfunded liability	*Increase (decrease) in liability*	*Net increase (decrease) in funding*	*Unfunded liability*
After-service health insurance	48 687	38 266	16 795	70 158
Repatriation benefits	20 775	1 621	546	21 850
Annual leave	17 349	3 105	3 271	17 183
Home leave	2 052	848	203	2 697
Total	**88 863**	**43 840**	**20 815**	**111 888**

Pension benefits

UNFPA is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined-benefit plan.

An actuarial valuation of the United Nations Joint Staff Pension Fund assets and pension benefits is prepared every two years. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual organizations participating in the plan, UNFPA is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan; thus the UNFPA share of the related net liability/asset position of the United Nations Joint Staff Pension Fund is not reflected in the financial statements.

The financial obligation of UNFPA to the United Nations Joint Staff Pension Fund consists of its mandated contribution at the rate established by the General Assembly, currently 7.9 per cent for the participant and 15.8 per cent for the organizations, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. As at the reporting date of the current financial statements, the Assembly had not invoked this provision.

The latest actuarial valuation was performed as at 31 December 2011. The valuation revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2011 was 25.57 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The actuarial deficit was primarily attributable to the lower than expected investment experience in recent years.

As at 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the United Nations Joint Staff Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2011, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of article 26. The pensionable remuneration will be reviewed at the time of the next actuarial valuation as at 31 December 2013.

In July 2012, the United Nations Joint Staff Pension Board noted in its report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012, the General Assembly authorized the Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation.

During 2012, contributions paid to the United Nations Joint Staff Pension Fund amounted to $26.4 million ($25.2 million in 2011).

The United Nations Board of Auditors carries out an annual audit of the United Nations Joint Staff Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments (available at www.unjspf.org).

Note 13
Other current and non-current liabilities and deferred revenue

Other current and non-current liabilities and deferred revenue comprise the following:

(Thousands of United States dollars)

	As at 31 December 2012	*As at 1 January 2012 (restated)*
Current		
Other liabilities	250	801
Deferred revenue	12 084	448
Total	**12 334**	**1 249**
Non-current		
Deferred revenue	6 330	6 779
Total	**6 330**	**6 779**

The increase in the value of deferred revenue in 2012 is due to $11.6 million of contributions to regular resources received in advance for 2013. Deferred revenue also includes donated rights to use premises — finance lease similar amounting to $5.2 million, and $1.5 million for the value of the rent-free period given by the landlord of UNFPA headquarters located in New York.

Note 14

Unearmarked resources — Movements in reserves and fund balances for the year ended 31 December 2012

(Thousands of United States dollars)

	Undesignated fund balance		Designated fund balance								
	Programmable fund balance	After-service health insurance and staff benefits fund (Note 12)*	Regional-ization (Note 14a)	Head-quarters relocation (Note 14b)	Procure-ment services (Note 14c)	Cost recovery (Note 14d)	Private endow-ment trust (Note 14e)	Total fund balance	Operational reserve (Note 14f)	Reserve for field accom-modation (Note 14g)	Total reserves and fund balances
Balance as at 31 December 2011	49 780	(80 529)	17	221	1 756	–	38 786	10 031	90 704	5 000	105 735
Changes in accounting policies											
Investments	7	–	–	–	–	–	–	7	–	–	7
Inventories	2 024	–	–	–	–	–	–	2 024	–	–	2 024
Property, plant and equipment	29 804	–	–	–	–	–	–	29 804	–	–	29 804
Deferred revenue for donated right to use — finance lease similar	(5 425)	–	–	–	–	–	–	(5 425)	–	–	(5 425)
Employee benefits	–	(8 334)	–	–	–	–	–	(8 334)	–	–	(8 334)
Accounts receivable	(1 421)	–	–	–	–	–	–	(1 421)	–	–	(1 421)
Adjusted opening balance as of 1 January 2012	**74 769**	**(88 863)**	**17**	**221**	**1 756**	**–**	**38 786**	**26 686**	**90 704**	**5 000**	**122 390**
Net excess/(shortfall) of revenue over expenditure	819	(12 385)	22	(162)	–	–	(323)	(12 029)	–	(134)	(12 163)
Changes in allocations											
After-service health insurance and staff-related benefits fund	(12 500)	12 500	–	–	–	–	–	–	–	–	–
Transfers within reserves											
To reserve for field accommodation	(1 234)	–	–	–	–	–	–	(1 234)	–	1 234	–
To operational reserve	3 500	–	–	–	–	–	–	3 500	(3 500)	–	–
Transfers within UNFPA resources	(2 302)	–	–	–	88	2 748	–	534	–	–	534
Other adjustments to resource balances											
After-service health insurance and repatriation benefits	–	(23 140)	–	–	–	–	–	(23 140)	–	–	(23 140)

	Undesignated fund balance		Designated fund balance								
	Programmable fund balance	After-service health insurance and staff benefits fund (Note 12)*	Regional-ization (Note 14a)	Head-quarters relocation (Note 14b)	Procure-ment services (Note 14c)	Cost recovery (Note 14d)	Private endow-ment trust (Note 14e)	Total fund balance	Operational reserve (Note 14f)	Reserve for field accom-modation (Note 14g)	Total reserves and fund balances
Unused special purpose allocation	98	–	(39)	(59)	–	–	–	–	–	–	–
Balance as at 31 December 2012	**63 150**	**(111 888)**	**–**	**–**	**1 844**	**2 748**	**38 463**	**(5 683)**	**87 204**	**6 100**	**87 621**
Net total		**(48 738)**					**43 055**			**93 304**	

* The balance of $111.9 million under this column as at 31 December 2012 corresponds to the unfunded portion of the employee benefit liabilities as reported in note 12.

For the purpose of determining the balance of unused resources to be distributed to programme activities in 2013, the following adjustments need to be made to the fund balance represented above to align with the budgetary basis: undepreciated property, plant and equipment ($29.4 million) net of unamortized donated rights to use — finance lease similar ($5.2 million); inventory ($6.7 million). The distributable balance therefore amounts to $32.3 million.

Distinction between designated and undesignated fund balances:

"Designated" refers to the portion of regular resource balance that is designated for a special purpose and is not available for programming; "undesignated" refers to the remaining portion of the resource balance.

(a) Regionalization

In line with Strategic Plan 2008-2011, the geographical divisions were relocated to the field and merged with the country support teams to create regional and subregional offices. This process was completed in 2011 at cost of $19.8 million. A small fund balance was brought forward into 2012 to satisfy some remaining legal commitments entered into in 2011. At the end of 2012 the residual balance was made available for programming activities.

(b) Headquarters relocation

The Executive Board, in its decision DP/FPA/2009/10, authorized the setting aside of $5.9 million in the period 2010-2011 to cover the one-time costs of setting up the new UNFPA headquarters premises and moving from its previous location. The relocation and operational setup were completed in 2011; however, a small fund balance was brought forward into 2012 to satisfy some remaining legal commitments entered into in 2011. At the end of 2012 the residual balance was made available for programming activities.

(c) Procurement services

The surplus of procurement services fee revenue over expenses in 2012 was $0.1 million. The cumulative surplus of $1.8 million arising from such activities at 31 December 2012 has been set aside to facilitate resource planning in future years.

(d) Cost recovery

Actual cost recoveries in excess of the amounts based on implementation levels included in the institutional budget were retained in a separate fund that is utilized by UNFPA management to cover, inter alia, those types of cost that are associated with the implementation of projects. For this purpose, the budgeted cost recovery for 2012 is assumed to be half of the total cost recovery presented in the 2012-2013 institutional budget, that is, $20.4 million in 2012. The actual cost recovery in excess of this amount was $2.7 million. This amount includes $1.6 million earned through procurement activities on behalf of co-financing projects.

(e) Private endowment fund

This fund was created through an endowment from the estate of the late Forrest E. Mars. The balance of $38.5 million comprises the principal of $33.7 million as well as subsequent cumulative interest earned of $5.5 million less funds provided for activities of $0.7 million. Under the terms of the trust agreement UNFPA is bound to proportionately reimburse the Trustee or his heirs for any potential liability in the event of a valid claim against the estate.

(f) Operational reserve

The purpose of the operational reserve is to provide for temporary fund deficits and to ensure the continuity of programme implementation in the event of downward fluctuations or shortfalls in resources, uneven cash flows, unplanned increases in actual costs or other contingencies. This level of operational reserve was incorporated within the UNFPA Financial Regulations and Rules endorsed by the Executive Board.

The level of the operational reserve was set at $45 million at the thirty-sixth session of the Governing Council, in 1989. At its thirty-eighth session, in 1991, the Governing Council decided that the level of the operational reserve should be set at 20 per cent of unearmarked resources revenue for each year of the UNFPA workplan.

In the year ended 31 December 2012, given net contribution revenue of $436.0 million, the operational reserve was $87.2 million, as shown in statement I.

(g) Reserve for field accommodation

At its thirty-eighth session in 1991, the Governing Council approved the establishment of a reserve for field accommodation at the level of $5.0 million for the biennium 1992-1993 and authorized the Executive Director to make drawdowns from it for the purpose of financing the UNFPA share of construction costs for common premises under the auspices of the Joint Consultative Group on Policy. Field accommodation expenses incurred in 2012 were $0.1 million, and an amount of $1.1 million was advanced for the construction of property still incomplete at the year-end. As at 31 December 2012, $1.2 million was transferred from unexpended resources to replenish the reserve for field accommodation.

Note 15
Contribution revenue

Contribution revenue for 2012 is as follows:

(Thousands of United States dollars)

	2012
Unearmarked (core) contributions	437 499
Less transfers to other revenue for reimbursement of tax charges	(3 293)
Subtotal	**434 206**
Contributions earmarked for:	
Programmes	505 241
Junior professional officers	5 230
Contributions in kind	24
Less refunds to donors	(7 371)
Subtotal	**503 124**
Total	**937 330**

The breakdown of unearmarked and earmarked contributions schedules by donor is detailed, respectively, in schedules A and B. Earmarked contributions in this note are presented net of UNFPA indirect costs, which are shown in note 16, under "other revenue".

"Contributions in kind" represent the value of goods received by UNFPA in 2012 and utilized for its programmatic activities. The amount of services received by UNFPA in 2012 is not material.

Note 16
Other revenue

Other revenue for the year ended 31 December 2012 comprised the following.

(Thousands of United States dollars)

	Unearmarked resources	*Earmarked resources*	*Total*
Investment revenue	4 710	2 326	7 036
Fees for support services	23 149	2 146	25 295
Net currency revaluation adjustments and gains/(losses) on exchange — contribution receivable	(1 206)	3 094	1 888
Net currency revaluation adjustments and gains/(losses) on exchange — others	8 189	(1 394)	6 795
Revenue earmarked for procurement activities	–	861	861
Premises occupied based on donated right to use — operating lease similar	3 662	–	3 662
Premises occupied based on donated right to use — finance lease similar	181	–	181
Gains from disposal of fixed assets	211	–	211
Reimbursement of tax charges	3 293	–	3 293
Miscellaneous revenue	998	922	1 920
Total	**43 187**	**7 955**	**51 142**

Revenue and expense (see note 18) in the amount of $3.7 million was recognized for the donated rights to use (operating lease similar) premises occupied in 2012 by UNFPA under this type of agreement, based on the annual rental value of similar premises as calculated by an external independent consultant.

Revenue and a depreciation charge of $0.2 million were recognized with regard to the donated rights to use (finance lease similar) premises occupied by UNFPA in 2012 under this type of agreement, on the basis of the asset valuation provided by an external independent consultant.

Note 17
Finance costs

The finance costs disclosed in statement II consist entirely of bank charges.

UNDP Treasury hedges on behalf of UNFPA, the currency risk to which UNFPA is exposed when donors pledge and pay contributions at different times and in currencies other than the United States dollar. UNFPA expenses for hedge premiums and exchange gains and losses are shown under "other revenue" (note 16). During the period, contribution revenue in seven currencies was hedged. At 31 December 2012 there were no outstanding hedging commitments.

Note 18
Other expenses

(Thousands of United States dollars)

	Unearmarked resources	*Earmarked resources*	*Total*
Premises occupied based on donated right to use	3 662	–	3 662
Transfer and losses from disposal of fixed assets	600	793	1 393
Doubtful debt expenses	584	–	584
Other	(31)	10	(21)
Total	**4 815**	**803**	**5 618**

Of the total amount of "other expenses", $5,531,000 relate to funds directly utilized by UNFPA and the remaining funds were utilized by implementing partners.

Note 19
Unearmarked resources — Programme activities by country and region and institutional budget

(a) Programme expenses by country and region for the year 2012

(Thousands of United States dollars)

	2012
Sub-Saharan Africa	
Angola	2 711
Benin	2 397
Botswana	1 460
Burkina Faso	3 502
Burundi	1 813
Cameroon	2 986
Cape Verde	1 314
Central African Republic	2 373
Chad	3 905
Comoros	1 219
Congo	1 725
Côte d'Ivoire	5 039
Democratic Republic of the Congo	7 974
Equatorial Guinea	1 800
Eritrea	1 637
Ethiopia	5 622
Gabon	969
Gambia	1 913
Ghana	2 595
Guinea	2 667

	2012
Guinea-Bissau	1 538
Kenya	4 897
Lesotho	1 829
Liberia	2 415
Madagascar	3 560
Malawi	3 130
Mali	2 269
Mauritania	2 957
Mauritius	181
Mozambique	4 624
Namibia	1 765
Niger	3 409
Nigeria	7 963
Rwanda	4 199
Sao Tome and Principe	652
Senegal	2 927
Seychelles	51
Sierra Leone	2 433
South Africa	2 173
South Sudan	2 868
Swaziland	1 602
Togo	1 554
Uganda	6 566
United Republic of Tanzania	4 117
Zambia	4 052
Zimbabwe	4 040
Total country projects	**133 392**
Regional projects	9 586
Total	**142 978**
Arab States	
Algeria	423
Djibouti	719
Egypt	2 704
Iraq	2 560
Jordan	1 706
Lebanon	961
Libya	751
Morocco	1 217
Oman	141

	2012
Palestine	2 367
Somalia	2 478
Sudan	4 189
Syrian Arab Republic	1 900
Tunisia	739
Yemen	2 251
Total country projects	**25 106**
Regional projects	3 851
Total	**28 957**
Asia and the Pacific	
Afghanistan	6 033
Bangladesh	2 552
Bhutan	1 524
Cambodia	3 574
China	4 552
Democratic People's Republic of Korea	1 196
Timor-Leste	2 594
India	12 511
Indonesia	6 027
Fiji	(6)
Iran (Islamic Republic of)	1 417
Lao People's Democratic Republic	1 798
Malaysia	446
Maldives	572
Mongolia	1 946
Myanmar	5 742
Pacific multi-islands[a]	2 830
Nepal	4 155
Pakistan	6 150
Papua New Guinea	1 979
Philippines	5 747
Sri Lanka	3 341
Thailand	1 771
Viet Nam	2 398
Total country projects	**80 849**
Regional projects	7 684
Total	**88 533**

	2012
Latin America and the Caribbean	
Argentina	751
Bolivia (Plurinational State of)	1 597
Brazil	1 808
Chile	276
Colombia	1 686
Costa Rica	761
Cuba	873
Dominican Republic	744
Ecuador	1 031
El Salvador	1 015
Guatemala	1 476
Haiti	3 094
Honduras	1 596
Mexico	1 393
Nicaragua	1 576
Panama	694
Paraguay	803
Peru	2 012
Uruguay	802
Venezuela (Bolivarian Republic of)	1 252
English- and Dutch-speaking Caribbean countries[b]	3 334
Total country projects	**28 574**
Regional projects	5 407
Total	**33 981**
Eastern Europe and Central Asia	
Albania	664
Armenia	614
Azerbaijan	710
Belarus	441
Bosnia and Herzegovina	412
Bulgaria	26
Georgia	690
Kazakhstan	581
Kosovo	287
Kyrgyzstan	894
Republic of Moldova	544
Romania	212
Russian Federation	747

	2012
Serbia	197
Tajikistan	885
the former Yugoslav Republic of Macedonia	220
Turkey	1 410
Turkmenistan	726
Ukraine	619
Uzbekistan	1 163
Total country projects	**12 042**
Regional projects	4 401
Total	**16 443**
Global programme and other activities	43 505
Total programme expenses	**354 397**

[a] Figures for Pacific multi-islands comprise several islands which, for reporting purposes, are classified under one heading, including the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Samoa, the Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu.

[b] Figures for English- and Dutch-speaking Caribbean countries comprise several countries and islands that, for reporting purposes, have been classified under one heading, including Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago and the Turks and Caicos Islands.

(b) Institutional budget

(Thousands of United States dollars)

	2012
Gross expenses	134 173
Credits to the institutional budget:	
Indirect costs charged to other resources	(23 149)
In excess of budget	2 749
Total	**113 773**

Note 20
Provisions and contingent liabilities

As at 31 December 2012, UNFPA did not have any material provisions or contingent liabilities.

Note 21
Related parties disclosures

Relevant transactions with key management personnel are as follows.

(Thousands of United States dollars)

	Number of individuals	*Compensation and post adjustment*	*Other entitlements*	*Pension plan and health benefits*	*Total remuneration*
Key management personnel	20	3 560	634	674	4 868

The aggregate remuneration paid to key management personnel includes: net salaries; post adjustment; entitlements such as representational allowances and other allowances, assignment and other grants; rental subsidies; personal effects shipment costs; and employer pension and health insurance contributions.

Key management personnel are also eligible for post-employment benefits at the same level as other employees. These benefits cannot be reliably quantified. Key management personnel are members of the United Nations Joint Staff Pension Fund as other staff members.

Note 22

Events after the reporting date

The UNFPA reporting date is 31 December 2012. These financial statements were signed and authorized for issuance by the Executive Director on 30 April 2013. As at the date of their authorization, no events have occurred since the reporting date that have materially impacted these financial statements.

Note 23

Presentation of budget information and comparison between actual amounts on a budget comparable basis and actual amounts reported in the financial statements

Statement V provides a comparison between the original budget, the final budget and the actual expenses incurred during the year, presented on a budgetary comparable accounting basis. Differences between the original and the final budget are due to elements that become known to management in the course of the year, such as final projections of regular contributions to be received and prior year distributable fund balances. Differences between the final budget and budget utilization amounts are due to underutilization of internally allocated resources.

Comparison between actual amounts on budget comparable basis and in cash flow statement

Reconciliations between the actual amounts presented in statement V and in statement IV are shown below. Differences are mainly due to "basis" differences and scope (or "entity") differences.

"Basis differences" are differences between the budgetary and the financial reporting basis of accounting. For revenue, the budget is based upon projections of contributions and estimates of unutilized resources from the previous year, while financial statements record contributions and other revenue as recognized on the full accrual basis. For expenses, the difference is attributable to the treatment of capital items such as property, plant and equipment and inventory. Other differences are movements in assets and liabilities, which are components of the cash flow statement but are not part of the actual net surplus as per statement V.

"Entity differences" represent the increase/(decrease) in cash and cash equivalents for activities that are out of the scope of the approved budget.

(Thousands of United States dollars)

	Operating activities	*Investing activities*	*Total*
Actual net surplus as per the statement of comparison of budget and actual amounts	**40 843**		**40 843**
Basis differences	42 239	(18 720)	23 519
Difference between total revenue and final budgetary allocations	(40 631)		(40 631)
Difference between expenses on accrual basis and on budgetary basis	609		609
Other — movements in assets and liabilities	82 261	(18 720)	63 541
Budgetary result on cash basis	**83 082**	**(18 720)**	**64 362**
Entity differences	101 482	20 934	122 416
Actual amount in cash flow statement	**184 564**	**2 214**	**186 778**

Note 24
Segment reporting

Segment information is based on the principal activities and sources of financing of UNFPA. As such, UNFPA reports separate financial information for two main segments: (i) unearmarked resources; and (ii) earmarked resources.

(a) Segment reporting of the statement of financial position as at 31 December 2012

UNFPA considers cash, cash equivalents and investments as "joint assets" between segments. It also considers selected accounts payable (that is, inter-fund accounts) and employee benefits as "joint liabilities" between segments. Revenue and expenses related to these joint items are attributed to the segment in the normal course of operations. Therefore, in accordance with IPSAS, UNFPA attributed joint assets and liability to segments. Cash, cash equivalents and investments have been attributed based on the respective fund balances of the segments, while accounts payable and employee benefits have been attributed based on the respective percentage of posts.

(Thousands of United States dollars)

	Unearmarked resources 2012	*Earmarked resources 2012*	*Total 2012*
Assets			
Current assets			
Cash and cash equivalents	175 096	205 033	380 129
Investments maturing within one year	108 995	127 640	236 635
Inventories	6 697	29 046	35 743
Contributions receivable (exchange transactions)	–	237	237
Contributions receivable (non-exchange transactions)	2 745	124 763	127 508
Other current assets and prepayment	9 634	7 543	17 177
Operating fund accounts	7 266	6 429	13 695
Total	**310 433**	**500 691**	**811 124**
Non-current assets			
Contributions receivable (non-exchange transactions)	–	50 276	50 276
Investments maturing after one year	143 546	168 102	311 648
Property, plant and equipment	30 545	1 418	31 963
Total	**174 091**	**219 796**	**393 887**
Total assets	**484 524**	**720 487**	**1 205 011**
Liabilities			
Current liabilities			
Accounts payable and accruals	153 889	97 167	251 056
Employee benefits	25 027	2 422	27 449
Other current liabilities and deferred revenue	11 556	778	12 334
Total	**190 472**	**100 367**	**290 839**
Non-current liabilities			
Employee benefits	200 101	19 790	219 891
Other non-current liabilities and deferred revenue	6 330	–	6 330
Total	**206 431**	**19 790**	**226 221**
Total liabilities	**396 903**	**120 157**	**517 060**
Net assets	**87 621**	**600 330**	**687 951**
Reserves and fund balances			
Operational reserve	87 204	–	87 204
Reserve for field accommodation	6 100		6 100
Total reserves	**93 304**	**–**	**93 304**
Designated unearmarked fund balances	43 055	–	43 055
Undesignated unearmarked and earmarked fund balances			
Unearmarked resources	(48 738)		(48 738)
Earmarked resources		600 330	600 330
Total reserves and fund balances	**87 621**	**600 330**	**687 951**

(b) Segment reporting of the statement of financial performance for the year ended 31 December 2012

	Unearmarked resources 2012	*Earmarked resources 2012*	*Elimination column 2012*	*Total 2012*
Contribution revenue				
Unearmarked contributions	437 499			437 499
Less transfers to other revenue for reimbursement of tax charges	(3 293)			(3 293)
Earmarked contributions		533 644	(23 149)	510 495
Less refunds to donors		(7 371)		(7 371)
Total contribution revenue	**434 206**	**526 273**	**(23 149)**	**937 330**
Other revenue	43 187	7 955		51 142
Total revenue	**477 393**	**534 228**	**(23 149)**	**988 472**
Expenses				
Funds utilized by implementing partner — Governments and NGOs	97 120	108 757	(6 968)	198 909
Funds utilized by implementing partner — United Nations agencies	2 571	1 141	(70)	3 642
Funds utilized by UNFPA	389 865	254 082	(16 111)	627 836
Staff costs	205 228	31 424		
Supplies, consumables and operating costs	96 985	175 480	(16 111)	
Contracted services	46 026	29 568		
Finance costs	270	157		
Travel	29 423	16 092		
Depreciation and amortization	7 199	564		
Other expenses	4 734	797		
Total expenses	**489 556**	**363 980**	**(23 149)**	**830 387**
Surplus/(deficit) for the year	**(12 163)**	**170 248**	**–**	**158 085**

Note: The presentation above reflects the gross performance of each segment and the elimination column is therefore necessary to remove the effect of inter-segment activities.

Note 25
Financial risk management

UNFPA investment activities are carried out by UNDP under a service level agreement. Under the terms of the service level agreement, UNDP applies its investment guidelines and governance framework for the benefit of UNFPA. Investments are registered in the name of UNFPA with marketable securities held by a custodian appointed by UNDP.

The principal objectives of the investment guidelines (listed in order of importance) are:

- Safety: preservation of capital, provided through investing in high quality fixed-income securities emphasizing the creditworthiness of the issuers
- Liquidity: flexibility to meet cash requirements through investments in highly marketable fixed-income securities and through structuring maturities to align with liquidity requirements
- Income: maximization of investment income within the foregoing safety and liquidity parameters.

The UNDP investment committee, comprising senior management, meets quarterly to review investment portfolio performance and ensure that investment decisions are in compliance with the established investment guidelines.

UNFPA is susceptible to a variety of financial risks arising from financial instruments to which the organization is exposed, including:

- Credit risk: the possibility that third parties may not pay amounts when due
- Liquidity risk: the likelihood that UNFPA might not have adequate funds to meet its current obligations
- Market risk: the possibility that UNFPA might incur significant financial losses owing to unfavourable movements in foreign currency exchange rates, interest rates and prices of investment securities.

Credit risk

UNDP's investment guidelines limit the amount of credit exposure to any single counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the guidelines include conservative minimum credit criteria of investment grade for all issuers with maturity and counterparty limits by credit rating. The investment guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments are limited to fixed income instruments of sovereigns, supranational organizations, governmental or federal agencies and banks.

As at 31 December 2012, UNFPA short-term and long-term investments were in investment grade instruments as shown in the following table.

(Thousands of United States dollars)

	Credit ratings	*United States dollars*
Commercial paper and discount notes[a]	Aaa	24 972
Bonds	AA+ to AAA	523 311
Total		**548 283**

[a] Excludes financial instruments classified as cash equivalents.

Liquidity risk

Investments are made with due consideration to UNFPA cash requirements for operating purposes based on cash flow forecasting. The investment approach includes a consideration for investment maturity structuring that takes into account the timing of future funding needs of the organization. UNFPA maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due, as shown in notes 3 and 4.

Market risk

Interest rate risk

UNFPA is exposed to interest rate risk on its interest-bearing assets. Due to the relatively short average maturity and hold to maturity classification of a significant portion of the UNFPA investment portfolio, an interest sensitivity analysis related to these investments would not disclose significant variations in value. Held-to-maturity assets are not marked to market and therefore the carrying values are not impacted by changes in interest rates. The UNDP investment committee regularly monitors the rate of return on the investment portfolio compared to the benchmarks specified in the investment guidelines.

For cash and cash equivalents, term deposits and other investments, the UNDP investment committee regularly monitors that the rate of return is in line with the benchmarks set up in the investment policy. Interest rate risk is limited by the nature of investments that are held until maturity.

A sensitivity analysis of the market risks related to these investments would not disclose significant variations in value given the nature of the counterparty risk and maturity period of the investments.

(Thousands of United States dollars)

	As at 31 December 2012
Held-to-maturity investments	548 283
Available for sale investments	–
Total	**548 283**

Foreign exchange risk

As at 31 December 2012, 97.6 per cent of UNFPA cash, cash equivalents and investments are denominated in United States dollars and 2.4 per cent are denominated in other currencies. Non-United States dollar holdings have the primary objective of supporting local operating activities in programme countries. UNFPA maintains a minimum level of cash and cash equivalent in local currencies, and whenever possible maintains accounts in United States dollars.

(Thousands of United States dollars)

	In United States dollars	*In other currencies*
Cash and cash equivalents	358 131	21 998
Investments	548 283	–
Total	**906 414**	**21 998**

UNFPA is exposed to foreign exchange risk arising primarily from non-United States dollar contributions. Foreign exchange risk to UNFPA is mitigated where contributions are received in local currency from programme country governments and used to fund local expenditures.

The UNDP Treasury uses derivative instruments such as foreign exchange forwards, options and structured options to manage foreign exchange exposure. The derivatives are marked to market with gains or losses recognized in surplus and deficit in the statement of financial performance. As at 31 December 2012, UNFPA had no open derivative positions.

Note 26
Commitments

As at 31 December 2012, UNFPA commitments for the acquisition of various goods and services contracted but not received amounted to $45.7 million.

UNFPA contractual leases in the field are typically between one and five years. UNFPA also holds a longer term operating lease for its headquarters, located in New York. UNFPA obligations for minimal lease payments as at 31 December 2012 are as follows.

(Thousands of United States dollars)

Undiscounted minimum lease payments	*As at 31 December 2012*
Less than one year	6 396
One to five years	21 082
More than five years	38 686
Total undiscounted minimum lease payments	**66 164**

Only leases with a cancellation notice of 30 days or more are included above.

Schedule A

Unearmarked contributions — Status of contributions for the year ended 31 December 2012

(Thousands of United States dollars)

Donor	*Balance due to UNFPA at 1 January 2012*	*Adjustments for prior year*	*Commitments for current year (contribution income)*	*Movements in contributions received in advance*	*Exchange gains/(losses)*	*Payments received*	*Balance due to UNFPA at 31 December 2012*
Government							
Afghanistan	–	–	2	–	–	2	–
Albania	1	–	–	–	–	1	–
Andorra	–	–	13	–	–	13	–
Angola	5	(5)	–	–	–	–	–
Antigua and Barbuda	4	(1)	5	–	–	5	3
Argentina	5	–	–	–	–	3	2
Armenia	–	–	3	–	–	3	–
Australia	–	–	14 861	–	–	14 861	–
Azerbaijan	7	(4)	–	–	–	4	–
Bahamas	1	–	1	–	–	1	1
Bahrain	1	(1)	–	–	–	–	–
Bangladesh	–	–	25	–	–	25	–
Belgium	–	–	7 383	–	19	7 403	–
Belize	5	(3)	5	–	–	5	3
Benin	16	–	4	–	–	13	7
Bhutan	–	–	6	–	–	6	–
Bolivia (Plurinational State of)	–	–	1	–	–	1	–
Brazil	70	–	–	–	–	–	70
Burkina Faso	17	–	–	–	–	–	17
Burundi	–	–	1	–	–	1	–
Cambodia	–	–	3	–	–	3	–
Cameroon	128	(19)	20	–	–	–	129
Canada	–	–	17 350	–	–	17 350	–
Central African Republic	6	(3)	–	–	–	–	3
Chad	49	–	24	–	–	73	–
Chile	(5)	–	5	–	–	–	–

Donor	Balance due to UNFPA at 1 January 2012	Adjustments for prior year	Commitments for current year (contribution income)	Movements in contributions received in advance	Exchange gains/(losses)	Payments received	Balance due to UNFPA at 31 December 2012
China	–	–	1 050	–	–	1 050	–
Comoros	1	–	–	–	–	–	1
Congo	176	(40)	49	–	–	–	186
Cook Islands	2	–	0	–	–	1	1
Costa Rica	–	–	6	–	–	6	–
Cuba	–	–	5	–	–	5	–
Cyprus	2	(2)	5	–	–	5	–
Czech Republic	–	–	13	–	–	13	–
Democratic People's Republic of Korea	–	–	10	–	–	–	10
Democratic Republic of the Congo	5	(5)	–	–	–	–	–
Denmark	–	–	44 013	–	920	44 933	–
Djibouti	1	(1)	1	–	–	–	1
Dominican Republic	–	–	30	–	–	–	30
Ecuador	2	(2)	5	–	–	5	–
Egypt	–	–	112	–	–	112	–
El Salvador	1	–	2	–	–	–	3
Eritrea	–	–	2	–	–	2	–
Estonia	–	–	58	–	–	58	–
Ethiopia	–	–	2	–	–	2	–
Fiji	4	–	4	–	–	–	8
Finland	–	–	36 025	–	(486)	35 539	–
France	–	–	531	–	–	531	–
Gabon	–	8	9		(8)	–	9
Gambia	22	1	11	–	(2)	19	13
Georgia	–	–	10	–	–	10	–
Germany	–	–	20 741	–	–	20 741	–
Ghana	–	–	18	–	–	–	18
Guatemala	5	–	2	–	–	5	2
Guinea	4	(4)	–	–	–	–	–
Guinea-Bissau	4	(1)	1	–	–	–	4

Donor	Balance due to UNFPA at 1 January 2012	Adjustments for prior year	Commitments for current year (contribution income)	Movements in contributions received in advance	Exchange gains/(losses)	Payments received	Balance due to UNFPA at 31 December 2012
Guyana	2	–	1	–	–	2	–
Haiti	10	–	40	–	–	50	–
Honduras	–	–	2	–	–	2	–
Hungary	–	–	65	–	–	65	–
Iceland	100	–	69	–	–	169	–
India	–	–	497	–	–	497	–
Indonesia	35	–	37	–	–	37	35
Iran (Islamic Republic of)	76	(16)	–	–	–	–	60
Iraq	–	–	10	–	–	10	–
Ireland	–	–	4 155	–	–	4 155	–
Israel	–	–	20	–	–	20	–
Italy	1	(1)	–	–	–	–	–
Japan	–	–	24 910	–	–	24 910	–
Jordan	100	–	50	–	–	100	50
Kazakhstan	–	–	100	–	–	100	–
Kenya	10	–	10	–	–	10	10
Kuwait	–	–	10	–	–	10	–
Lao People's Democratic Republic	–	–	2	–	–	2	–
Lesotho	5	(3)	3	–	–	3	2
Liberia	30	–	10	–	–	–	40
Liechtenstein	21	–	54	–	–	75	–
Luxembourg	–	1	3 424	–	95	3 519	–
Madagascar	–	–	10	–	–	–	10
Malawi	4	–	9	–	–	13	–
Malaysia	–	–	215	–	–	215	–
Maldives	5	–	5	–	–	–	10
Mali	25	(7)	6	–	–	–	24
Mauritius	–	–	3	–	–	3	–
Mexico	–	–	67	–	–	67	–
Monaco	–	–	20	–	–	20	–

United Nations

United Nations Office for Project Services

Financial report and audited financial statements

for the year ended 31 December 2012

and

Report of the Board of Auditors

General Assembly
Official Records
Sixty-eighth Session
Supplement No. 5J

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United Nations Office for Project Services

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United Nations • New York, 2013

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal and certification

1 July 2013

The United Nations Office for Project Services (UNOPS) hereby submits its audited annual financial statements for the year ended 31 December 2012.

We acknowledge the following:

- That the management is responsible for the integrity and objectivity of the financial information contained in these financial statements.
- That the financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and include certain amounts that are based on the management's best estimates and judgements.
- That accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. The UNOPS internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.
- That the management provided the Board of Auditors and the UNOPS internal auditors with full and free access to all accounting and financial records.
- That the recommendations of the Board of Auditors and the UNOPS internal auditors are reviewed by the management. Control procedures have been revised, or are in the process of being revised, as appropriate, in response to those recommendations.

We certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Jan **Mattsson**
Executive Director

(*Signed*) Chitra **Venkat**
Acting Chief Financial Officer/Comptroller

The Chair of the Board of Auditors
United Nations
New York

30 June 2013

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Office for Project Services for the year ended 31 December 2012.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2012, which comprise the statement of financial position, the statement of financial performance, the statement of changes in net assets, the statement of cash flow, the statement of comparison of budget and actual amounts and the explanatory notes.

Responsibility of management for the financial statements

The Executive Director of UNOPS is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the auditors

Our responsibility is to express an opinion on the financial statements on the basis of our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit includes the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an evaluation of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as of the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2012 and the financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

In our opinion, the transactions of UNOPS that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the financial regulations and rules of UNOPS.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UNOPS.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania

30 June 2013

Chapter II

Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2012. The audit was carried out through the examination of financial transactions and operations at the UNOPS headquarters in Copenhagen and field visits to the operations centre in Sri Lanka, the operational hub in Peru, the North America office and the project centre in Jerusalem.

Opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2012 and its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Overall conclusion

UNOPS is entirely dependent on generating fees from the management services that it provides, meaning that it needs objectively to demonstrate the cost-effectiveness and quality of its services. To achieve this, UNOPS is enhancing and professionalizing the core services that it provides, improving its governance and management capacity and stabilizing its financial position after some years of difficulty. There are clear signs of positive progress.

For example, while there is scope for UNOPS to improve the management and delivery of infrastructure projects, successful project delivery and good practices were evident, and clients expressed satisfaction with the timeliness and quality of the service provided. Almost half of UNOPS clients, however, believed that the infrastructure services delivered were not cost-effective. UNOPS needs to identify ways to demonstrate and improve the cost-effectiveness of its delivery, for example by analysing the causes of project delays and cost overruns. UNOPS should also raise awareness among the wider United Nations system of the services that it delivers and the value that it could add to other United Nations system operations, with the aim of earning a greater share of such work in the future. This will require improved information on the timeliness, cost and quality of the infrastructure services and products delivered to clients.

In 2012, for the first time, UNOPS produced financial statements in compliance with IPSAS, but urgent and costly remedial action was required to ensure that the financial statements were fairly presented. To maximize the benefits from IPSAS, UNOPS needs to develop new accrual accounting processes and use the new information to support improved decision-making and enhanced financial management throughout the organization.

Key findings and recommendations

Follow-up of previous recommendations

Of the 31 recommendations relating to 2010-2011 and earlier bienniums, 15 (48 per cent) were fully implemented, 12 (39 per cent) were under implementation, 3 were not implemented and 1 was overtaken by events.

UNOPS had initially planned to rely on internal resources to implement IPSAS, but possessed insufficient technical skills to interpret and apply their more exacting requirements, necessitating the support of consultants and extensive remedial action. These difficulties were compounded by incomplete planning of key activities required to prepare financial statements and to facilitate the Board's audit.

Inter-fund account with the United Nations Development Programme

A number of issues arose during the audit of the inter-fund account used to record transactions with the United Nations Development Programme (UNDP). Material adjustments to balances were required. These could have been identified earlier had complete and timely reconciliations been performed. A dispute with UNDP concerning transactions worth $17 million remained unresolved at the time of the Board's audit.

Anti-fraud policies and procedures

Consistently low levels of detected fraud are reported by UNOPS. Fraud policies and procedures have been implemented to enable staff to report concerns, but a comprehensive fraud risk assessment has not been performed. Some 7 per cent of UNOPS staff completed an internal survey on fraud, with 2 of 3 respondents considering fraud to be a problem or a serious problem at UNOPS. Although these results should be treated with caution owing to the low response rate, they nevertheless indicate a staff perception of unethical behaviour at UNOPS. UNOPS drew the Board's attention to a global personnel survey that it had conducted in 2012, which had identified a positive score on the driver "ethical behaviour" of between 76 and 87 per cent, depending on the contractual status of the respondent. The Board noted, however, that the survey did not specifically address perceptions of unethical behaviour but reported how comfortable staff were approaching management to discuss biased treatment.

Delivery of infrastructure projects

In 2012, UNOPS spent $239 million on projects involving UNOPS as a principal to a construction contract, representing about one third of its business. Infrastructure projects are diverse and carried out in many locations. UNOPS is now increasing its focus on infrastructure, in line with its mandate.

The Board acknowledges that UNOPS is applying commercial skills in its infrastructure business, for example through its project management and assurance arrangements. The Board also recognizes that UNOPS faces challenges in strengthening its performance in this area and that it is taking action in this regard. The Board has identified the following main areas for improvement:

(a) There is a need for enhanced information on whether projects are delivered on time and whether there have been extensions of time agreed with clients. By better understanding causes of delays where they occur, UNOPS can provide more added value;

(b) Project budgets generally do not include specific contingency budgets, which could reduce the incentive for UNOPS project managers to keep their project budgets as low as possible. The Board noted that many projects were delivered at a cost that was precisely on, or very close to, budget. While this may reflect good management practices observed by the Board, there remains a risk that incentives may be distorted and the true cost of some projects may not be transparent. The Board also noted that UNOPS operated in an environment in which clients often did not use formal competition when awarding work;

(c) There is insufficient information on whether completed buildings meet user needs and contribute to wider outcomes. The evidence seen by the Board suggests that clients are generally satisfied, although only 49 per cent of clients were satisfied with the cost-effectiveness of UNOPS. UNOPS also needs better information on the extent to which its projects contribute to wider outcomes.

In the light of the findings above, the Board makes detailed recommendations in the main part of the present report. UNOPS informed the Board that it had accepted all the Board's recommendations. The main recommendations are that UNOPS:

(a) **Establish a detailed timetable for the preparation of financial statements, encompassing cleansing of accounting records, preparation of comprehensive supporting schedules and detailed and evidenced management review of the draft statements before submission to the auditors;**

(b) **Clearly identify the benefits expected from IPSAS accrual-based information and appoint a senior responsible owner to realize the benefits;**

(c) **Reconcile the inter-fund account with UNDP on a monthly basis to ensure that significant unexplained differences are swiftly resolved;**

(d) **Take action to raise staff awareness of the UNOPS ethical framework and relevant guidance on reporting fraud and other misconduct;**

(e) **Perform a comprehensive fraud risk assessment to identify the main areas of risk to UNOPS;**

(f) **Analyse information on causes of delays to projects, revising project management processes as insights are gained;**

(g) **Encourage project budgeting that demonstrates to clients that costs are constrained and includes a contingency budget, and assess the extent of the precision spending issue;**

(h) **Facilitate continuous improvement of project delivery by strengthening its information on post-completion performance of buildings, contributions to project outcomes and client and beneficiary views.**

Previous recommendations

The Board noted a generally positive response to its previous recommendations, with 48 per cent fully implemented and 39 per cent partially implemented. Progress remains slow, however, in addressing the Board's previous concerns about the timely closure of projects and resolution of disputed project charges.

A. Background

1. The United Nations Office for Project Services (UNOPS) provides management services that contribute to United Nations system peacebuilding, humanitarian and development operations. UNOPS is completely dependent on fees generated from providing project services and operates through four management practices: project management, procurement, human resources and financial management.

2. Following its midterm review in 2012, UNOPS began implementing structural and management changes designed to improve its efficiency, increase its focus and ensure greater attention to sustainability. UNOPS also adopted International Public Sector Accounting Standards (IPSAS) from 1 January 2012 to enhance financial management and reporting. In 2012, 65 per cent of its work was carried out on behalf of the United Nations system, with the United Nations Development Programme (UNDP) continuing to be its most important partner, accounting for some $299 million (31 per cent) of activity. Direct support to Governments accounted for 31 per cent of UNOPS work, with the largest agreements in Afghanistan, Peru and Argentina. UNOPS also worked with international financial institutions, for example through partnerships with the World Bank.

B. Mandate, scope and methodology

3. The Board of Auditors has audited the financial statements and reviewed the operations of UNOPS for the financial period ended 31 December 2012 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with the financial regulations and rules of UNOPS and with the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

4. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNOPS as at 31 December 2012 and its financial performance and its cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenditure had been properly classified and recorded in accordance with the UNOPS financial regulations and rules. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

5. The Board also reviewed UNOPS operations under financial regulation 7.5 with a focus on the management of infrastructure projects, one of the core management services of UNOPS.

6. The Board visited UNOPS headquarters in Copenhagen and examined field operations at the operations centre in Sri Lanka, the operational hub in Peru, the North America office and the project centre in Jerusalem. The Board also worked with the UNOPS Internal Audit and Investigations Group to provide coordinated audit coverage.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's findings were discussed with the management of UNOPS, whose views have been appropriately reflected.

C. Findings and recommendations

1. Follow-up of previous recommendations

8. UNOPS has responded positively to the concerns raised previously, although progress remains slow in some areas, such as the timely closure of projects and the resolution of disputed project charges. UNOPS has also failed adequately to address the Board's previous recommendations on asset management and has applied IPSAS transitional arrangements that allow up to five years fully to account for property, plant and equipment assets.

9. A commentary on the status of the Board's recommendations is set out in the annex and summarized in table II.1.

Table II.1
Status of implementation of previous recommendations of the Board of Auditors

	Fully implemented	*Partially implemented*	*Not implemented*	*Overtaken by events*	*Total*
Number of recommendations	15	12	3	1	31
Percentage	48	39	10	3	100

2. Implementation of the International Public Sector Accounting Standards

Background

10. In 2012, UNOPS produced its first set of IPSAS-compliant financial statements. The IPSAS accrual basis of accounting recognizes transactions and other events when they occur and not only when cash or its equivalent is received or paid.

11. The adoption of IPSAS introduces new terminology and changes the way in which transactions are treated and presented in the financial statements. Most significantly, UNOPS had for the first time to consider whether it acted as a principal or an agent in projects and disclose revenues and expenditure separately from those in which it acted in the capacity of agent (facilitating third-party transactions such as procurement activities). This presented a significant challenge.

12. The new financial statements provide users with more complete information on resources, obligations and movements in resources over the financial year. Statement V (comparison of budget and actual amounts) allows users to compare out-turn in 2012 on the same (cash) basis as the budget was prepared. The statements are also supported by a full set of notes, including a summary of significant accounting policies.

13. Note 29 to the financial statements sets out the adjustments made to opening balances as at 1 January 2012 as a result of adopting IPSAS. Significant adjustments included the recognition of:

(a) Prepayments totalling $11.9 million, representing the value of payments made in advance by UNOPS as at 1 January 2012;

(b) A previously unreported employee benefit liability of $28.3 million relating to the accrued value of after-service health-care costs for its employees working directly on projects;

(c) An additional liability of $55.2 million relating to costs where invoices had been received as at 1 January 2012 and the exclusion of budgetary commitments totalling $94.0 million where goods and services had not been received as at 1 January 2012;

(d) An additional $84.1 million of liabilities relating to project advances, reflecting the impact of recognition on an accrual basis.

14. A number of reclassifications were also made. For example, provisions of $36.6 million were reclassified as impairments of amounts receivable, end-of-service and post-retirement liabilities reported under the United Nations system accounting standards were reclassified into current or non-current employee benefits and certain balances reported under the United Nations system accounting standards as "cash and term deposits" were reclassified as "cash and cash equivalents" and "investments" in line with IPSAS terminology.

15. The reconciliation of opening balances in the statement of changes in net assets (statement III) discloses that total net adjustments of $29.9 million were made to the operational reserve in establishing IPSAS-compliant opening balances. The recognition of all assets and liabilities of the organization as they are incurred leads to improved information for decision makers and enables Member States and other users of the financial statements to understand more readily the true financial position and performance of UNOPS. The adoption of a common set of accounting standards throughout the United Nations system also facilitates easier and more useful comparison of financial performance across and between organizations.

16. In its previous report (A/67/5/Add.10), the Board considered that UNOPS was on track to implement IPSAS, but expressed concern that it needed to extend its implementation plan beyond 1 January 2012 to include the cleansing of all legacy balances and address weaknesses in asset management. Those issues were not adequately addressed by UNOPS and the IPSAS opening balances presented for audit contained material errors and uncertainty owing to poor-quality data and the selection of inappropriate accounting policies. A comprehensive plan of action setting out the key actions required was therefore agreed with UNOPS and consultants were engaged at a cost of $528,000 to provide additional support.

17. The consultants developed a methodology for categorizing projects and ensured that the accounting treatment was IPSAS compliant. They also assisted with the development of formats for financial statements and notes to ensure that the detailed requirements of the standards were met and assisted in finalizing the IPSAS policy framework. That concerted action was critical to the successful production of IPSAS-compliant financial statements and led to further gross adjustments and reclassifications to the opening balances of $1.334 billion from when they were first presented for audit.

18. Overall, UNOPS was significantly underprepared for implementing IPSAS in 2012. It possessed insufficient financial management capacity and staff lacked

sufficient guidance or experience to interpret and apply the standards. UNOPS needs to ensure that the 2013 financial statements are prepared in line with a comprehensive timetable and plan, using reliable data and supported by detailed schedules showing how accounting estimates and balances were derived. UNOPS management needs to review the draft financial statements and show evidence of this review to confirm its satisfaction with their quality before presenting them for audit. Further staff training and guidance should also be provided to raise the level of technical accounting skills possessed by staff. The preparation of interim financial statements may help to spread the workload across the year more evenly, reducing the burden at year-end, and facilitate early identification of errors in the accounting records.

19. **UNOPS agreed with the Board's recommendation that it: (a) establish a detailed timetable for the year-end preparation of its financial statements encompassing the cleansing of accounting records, the preparation of comprehensive supporting schedules, and detailed and evidenced-based management review of the draft financial statements before their submission to the auditors; (b) develop an IPSAS accounting manual to provide guidance to staff on accrual accounting; and (c) consider preparing interim financial statements to spread the workload of finance more evenly across the year and facilitate early identification of accounting issues.**

20. UNOPS informed the Board that it had taken steps to ensure a more organized and pragmatic approach for the 2013 accounts closure process, including evidence-based management reviews of the financial statements, planned additional technical training and enhanced guidance on accrual accounting, and would consider the preparation of interim financial statements as part of the annual workplan for its finance team.

Benefits of International Public Sector Accounting Standards

21. UNOPS operates on a commercial basis and relies wholly on the fees that it generates from commercial services to operate. Wherever relevant to its business, UNOPS seeks independent certification to demonstrate its commitment to quality. In 2011, it received International Organization for Standardization (ISO) 9001 certification for its global quality management system. Its procurement procedures are certified by the Chartered Institute of Purchasing and Supply and it has also adopted contracts for infrastructure works based on those of the International Federation of Consulting Engineers. UNOPS has also implemented IPSAS, the benchmark international standard for the public sector. UNOPS revenues, expenses and results are comparable with other similar organizations operating in the same sectors and it is now well placed to benchmark its performance more widely.

22. It is important that concerted action be taken to realize the full range of benefits available from reliable and complete financial information. UNOPS needs to embed accrual-based processes in its day-to-day operations and improve the quality of information available to decision makers at key points in the management cycle. IPSAS provides a platform for improving operational performance and financial management throughout the organization by facilitating better measurement and understanding of the costs of operations and allowing benchmarking or comparing of costs against similar organizations. The much-improved information available on the use of resources and liabilities can be

used to improve management of fixed assets, inventory, payroll and wider employee benefits, in addition to other areas, for example by using the new information available to establish more reliable measures of rates of return on capital employed and revenue targets. Business development opportunities and operational activities in the pipeline could also be costed more fully using up-to-date accrual-based information.

23. Such initiatives offer an opportunity for the finance function to implement tools and processes to optimize decision-making and play a wider, more strategic role at the heart of the organization. To ensure that the full benefits of IPSAS are realized, UNOPS needs to set out the benefits expected and identify changes required to business systems and procedures to achieve them. A senior responsible owner should also be assigned responsibility for ensuring that the benefits are delivered.

24. **The Board recommends that UNOPS: (a) clearly identify the envisaged benefits from accrual-based information and associated revised management procedures; and (b) appoint a senior responsible owner for realizing such benefits and embedding new ways of working throughout the organization.**

3. Financial overview

25. IPSAS financial statements provide improved transparency of expense and better understanding of the organization's costs. The statement by the Executive Director also provides a financial analysis, meaning that the Board has only limited additional comments.

26. UNOPS reported a net surplus of $8.2 million in 2012 (see statement II), including finance income of $1.6 million. Total expenses stood at $676.6 million, including total staff and other personnel costs of $245.1 million, contractual costs of $193.3 million (mostly expenditure under construction contracts), operational costs of $154.6 million and office costs of $54.9 million, with the remaining expenses amounting to $28.7 million. Of total revenue of $683.2 million reported in 2012, almost half (46.5 per cent) was generated by project management services and a further $253.8 million (37.1 per cent) from construction contracts. In 2012, UNOPS also received $2.5 million of services in kind, relating primarily to the estimated market rental value of office accommodation and related services provided free of charge by the Government of Denmark. In accordance with the IPSAS transitional provisions, comparative information has not been provided for the performance statement in 2012, but full prior year comparative information will be available in 2013.

27. As at 31 December 2012, UNOPS held total cash and investments of $1,257.6 million, which comprised cash and cash equivalents of $521.3 million (compared with $371.0 million on 1 January 2012), short-term investments of $385.2 million (compared with $383.6 million on 1 January 2012) and long-term investments of $351.1 million (compared with $215.6 million on 1 January 2012). Given that it is predominantly pre-funded, as at 31 December 2012 UNOPS held advance funds from project sponsors of $269.1 million and a further $594.5 million of deferred revenues. This is equivalent to programme delivery of 10.4 months and demonstrates that UNOPS is in good financial health and has an agreed forward programme of work. The sound financial position of UNOPS can also be illustrated using key financial indicators such as ratios. Some financial indicators based on the UNOPS financial position as at 31 December 2012 are set out in table II.2.

Table II.2
Financial ratios

	As at 31 December 2012	*As at 1 January 2012*
Current assets to current liabilities[a]	0.8	0.9
Total assets to total liabilities[b]	1.1	1.0
Cash and short-term investments to current liabilities[c]	0.8	0.8
Total cash and investments to total assets	**0.9**	**1.0**

Source: UNOPS financial statements.

[a] A high ratio reflects the ability of UNOPS to meet short-term obligations; higher ratios indicate high liquidity.

[b] A high ratio indicates a strong solvency position.

[c] A high ratio reflects the extent of cash available to settle debts.

28. The ratios set out in table II.2 show that the overall financial position of UNOPS is sound. Current assets almost match current liabilities and total assets marginally exceed total liabilities. The ratios also confirm that UNOPS has sufficient cash reserves to meet current (short-term) liabilities.

Employee benefits liabilities

29. For the year ended 31 December 2012, UNOPS reported employee benefits liabilities of $54.9 million (compared with $66.8 million on 1 January 2012). In response to the Board's previous recommendation, and in accordance with the requirements of IPSAS, UNOPS has now fully recognized its end-of-service liabilities of $26.1 million (compared with $39.9 million on 1 January 2012) for after-service health insurance benefits for existing and retired staff.

30. In response to the Board's previous recommendation on the need to develop a policy for funding its end-of-service liabilities, UNOPS introduced a levy of 5 per cent on project salaries. That generated $3.6 million of funding towards the total liability, but UNOPS included the funds within the operational reserve rather than establishing a separate reserve, which has reduced transparency about the funding provided for end-of-service liabilities.

31. **The Board recommends that UNOPS establish a separate reserve account for after-service benefits in order to increase the visibility of funding provided for end-of-service liabilities.**

32. UNOPS liability for untaken annual leave as at 31 December 2012 was $13.5 million (compared with $12.1 million on 1 January 2012). Of a total of 838 fixed-term staff, 143 (17 per cent) have accrued the maximum annual leave currently allowed to be carried over to future years (60 days). UNOPS has not considered what options may exist for managing down these liabilities, for example by further capping the level of annual leave carry-over.

Inter-fund account with the United Nations Development Programme

33. The Board has consistently recommended that UNOPS reconcile the inter-fund account with UNDP before the financial statements are presented for audit. In 2012,

reconciliation was not completed until mid-June 2013 and was also poorly documented and incomplete.

34. UNOPS initially reported a payable balance to UNDP as at 31 December 2012 of some $257.0 million (compared with $110.2 million on 1 January 2012), which comprised cumulative UNDP project expense of $985.9 million offset by payments made by UNDP on behalf of UNOPS totalling $1,217.3 million and the UNDP 2012 fee of $5.5 million for the services that it provided to UNOPS. Of the $985.9 million project expense, UNOPS has impaired the amount recoverable by $20.1 million, of which $17.2 million relates to rejected UNDP charges. UNOPS and UNDP have agreed upon a mechanism to resolve the disputed balance through a panel of independent experts. While it is disappointing that this process has not yet been concluded, agreement is expected to be reached in 2013. In the meantime, UNOPS has fully impaired this element in its financial statements.

35. **The Board reiterates its previous recommendation that UNOPS resolve the dispute over inter-fund differences in its accounts with UNDP.**

36. As a consequence of not performing a timely reconciliation, errors with a gross value of $5.5 million required correction before the Board was content that the financial statements were fairly stated. The most significant error was an understatement of $5.0 million arising from the omission of funding transfers from UNDP country offices to UNOPS. The inter-fund reconciliation allows UNOPS and UNDP to confirm that their accounting records are in agreement. It is therefore important that reconciliations be performed on a regular and timely basis.

37. **The Board recommends that UNOPS reconcile the inter-fund account with UNDP on a regular, and at least quarterly, basis, posting correcting entries as appropriate to its accounting system to maintain the overall reliability of the accounting records.**

38. **The Board also recommends that, when UNOPS has resolved its accounting differences with UNDP, it establish additional safeguards to avoid differences arising in the future, including by fully settling transactions in cash at regular intervals.**

39. This recommendation replaces the Board's previous recommendations on the inter-fund account reconciliation. UNOPS informed the Board that it wished to explore the possibility of moving to cash-based transactions with UNDP, which would obviate the need for the inter-fund account in the future.

4. Anti-fraud policies and procedures

40. In the past three years, UNOPS has reported 25 cases of fraud affecting it, mostly involving attempted medical insurance fraud with limited, if any, financial loss to the organization. In other cases, contracted personnel had undisclosed external financial interests in business entities to which they were involved in awarding contracts or which they supervised for UNOPS. In the light of annual expenses of some $700 million and the difficult operating environments in which UNOPS works, the Board considers the reported levels of identified fraud to be low. It conducted a review of UNOPS anti-fraud policies and procedures.

Policy to address fraud

41. In 2010, UNOPS revised its fraud policies and procedures and established controls to prevent, detect, report and investigate fraud, including raising awareness of fraud risks. UNOPS identified three main categories of fraud risk: staff-benefit fraud, fraud involving third parties (in particular contractors) and fraud committed to induce the organization to act in a manner other than it would have acted with the knowledge of the genuine information.

42. Complementing the policy to address fraud, UNOPS has set out a framework for addressing non-compliance with United Nations standards of conduct. This framework:

(a) Defines the mechanisms that currently exist within UNOPS for reporting suspected wrongdoing, in addition to what constitutes misconduct;

(b) Clarifies the responsibilities of each individual involved in the investigation of suspected wrongdoing;

(c) Explains the procedure following an investigation;

(d) Outlines the disciplinary and non-disciplinary measures for staff members;

(e) Outlines the administrative measures for personnel other than staff members.

43. While UNOPS has clearly considered some potential sources of fraud, a comprehensive fraud risk assessment has not been performed to identify the major types of fraud to which UNOPS is exposed. UNOPS should systematically evaluate fraud risks and consider how the existing control measures mitigate them, in addition to defining its tolerance to various types of fraud risk and ensuring that anti-fraud controls are commensurate with that risk appetite. Given the high-risk environments in which UNOPS operates, and the nature of its services such as construction, it is unrealistic to expect levels of fraud to be zero.

44. **UNOPS agreed with the Board's recommendations that it: (a) appoint a fraud risk owner, or senior risk officer, at a suitably senior level, to be accountable for the active management of fraud risks throughout UNOPS activities; (b) perform a comprehensive, organization-wide fraud risk assessment to identify the major types of fraud risk that UNOPS faces; and (c) define UNOPS tolerance to various types of fraud risk and ensure that fraud controls are commensurate with that risk appetite.**

45. UNOPS informed the Board that: (a) it would appoint a senior risk officer to support senior management in exercising that responsibility, in particular with regard to fraud; (b) it would expand its annual Internal Audit and Investigations Group risk assessment to include a comprehensive assessment of the major types of fraud risk that it faced; and (c) it would continue to review its accountability framework to ensure that it was appropriately calibrated to reflect the organization's tolerance of various types of fraud risk.

Internal Audit and Investigations Group

46. The Internal Audit and Investigations Group leads the Executive Director's investigations into alleged fraud, corruption, waste of resources, abuse of authority and other misconduct. In 2012, it received 88 complaints, of which 54 were investigated (compared with 49 complaints and 28 investigations in 2011). Almost

half of the cases (26) related to alleged fraud or financial irregularity involving an estimated financial impact of $155,000. A further 20 cases related to medical insurance fraud, 7 involved harassment and abuse of authority and 1 related to a conflict of interest.

47. As at 31 December 2012, the Group had two staff (a lead investigator and an assistant) to handle 36 investigations. During the year, it finalized 41 investigations, referred 24 other cases to the human resources legal officer for action and closed 17 cases in which the allegations were found to be unfounded or unsubstantiated.

Sanctions

48. The Board reviewed the action taken against individuals and found that 13 of the 33 individuals involved in the 24 cases referred to human resources for action had separated from service before the administrative process had been completed. The Board was informed that, because the United Nations Dispute Tribunal does not permit disciplinary action against personnel separated from service, the individuals concerned had not been subject to sanctions. A further 18 individuals on UNOPS contracts worked for other United Nations organizations, prolonging the administrative process.

49. Only 2 of the 33 staff referred to human resources had therefore faced sanctions at the time of the Board's review: one had been disciplined and the other was making financial restitution for the losses incurred as a result of his or her misconduct. UNOPS has no key performance indicators in place to measure its success in tackling fraud. In addition, the Board is concerned at the delays in imposing sanctions and the apparent ease with which individuals can escape sanctions by leaving the organization.

Background checking

50. In November 2012, UNOPS reviewed its procedures for conducting background checks on new recruits and decided to outsource the process to a commercial organization. Background checks will include employment history checks, verification of qualifications and, where possible, confirmation that the individual has no criminal record. While it is not yet mandatory for UNOPS managers to use this service, the Board considers that this positive development enhances the rigour of recruitment procedures and encourages UNOPS to make such checks mandatory for key or sensitive posts. Similarly, UNOPS has significant exposure from vendors and other contractors and should consider whether similar background checks would provide additional safeguards for its business interests.

51. **The Board recommends that UNOPS examine the costs and benefits of performing mandatory background checks on all new recruits, vendors and other partners or contractors.**

52. UNOPS informed the Board that it was concluding its standard operating procedures for mandatory background checks and was assessing the costs and benefits of applying similar procedures for vendors, contractors and partners.

Anti-fraud survey

53. In 2012, as part of its proactive work in this area, the Internal Audit and Investigations Group performed an ethics, integrity and anti-fraud survey that was

completed by 451 personnel (some 7 per cent of UNOPS staff). The survey revealed that 80 per cent of personnel would report fraud, usually to their direct supervisor. Some 236 personnel reported seeing unethical behaviour such as accepting gifts (20 per cent), stealing (16 per cent), falsifying documents (21 per cent) or running outside business interests (31 per cent). Fraud was considered to be a problem or a serious problem at UNOPS by 2 of 3 respondents.

54. The survey also revealed that 20 per cent of respondents had not completed the mandatory ethics training course. While no direct conclusions can be drawn from the results, they indicate a staff perception of unethical behaviour at UNOPS. They also indicate that, while respondents claimed to report issues to their direct supervisor regularly, such issues were not apparently being reported to the Internal Audit and Investigations Group.

55. **The Board recommends that UNOPS: (a) review and analyse the results of the survey as part of its review of fraud policies and procedures; and (b) consider whether its personnel require further training in expected ethical behaviour and in procedures to be followed when reporting fraud or misconduct.**

56. UNOPS informed the Board that it had taken action on the recommendation and hired an external firm to create an in-person training workshop for personnel. The project should be completed by the end of the third quarter of 2013.

5. Delivery of infrastructure projects

57. Infrastructure projects are projects that construct or refurbish a physical asset. They are a core part of the UNOPS mandate to provide a central resource for the United Nations system in procurement and contracts management, as well as in civil works and physical infrastructure development, including the related capacity-development exercises. Construction contracts in which UNOPS was a principal accounted for $239 million of UNOPS expense in 2012, around one third of its total expense. UNOPS was most active in projects in South Sudan ($49 million) and Peru ($39 million) (see table II.3).

Table II.3

Expense on infrastructure projects by top 10 countries or areas, 2012

(Millions of United States dollars)

Location of project	*Expense*
South Sudan	49
Peru	39
Afghanistan	31
Democratic Republic of the Congo	25
Haiti	26
Guatemala	19
State of Palestine	6
Sri Lanka	6

Location of project	*Expense*
Kosovo[a]	6
Sudan	5
Top 10 countries/areas	211
All countries/areas	**239**

Source: Board analysis of UNOPS data.

Note: The table is based on construction projects where UNOPS is a principal to the contract. It does not include projects where UNOPS is an agent or parts of projects that fall outside construction contracts. For its own management systems, UNOPS does count some of these projects as infrastructure projects.

[a] References to Kosovo shall be understood to be in the context of Security Council resolution 1244 (1999).

58. UNOPS infrastructure business is diverse, encompassing a wide range of infrastructure, including roads, hospitals, administrative buildings and schools. UNOPS also manages projects in various ways. For example, in the State of Palestine, UNOPS typically carries out full project management of the construction of public buildings by private-sector contractors. In Peru, UNOPS operates mainly a service-only model that involves supervising the implementation of civil works, for example by designing the bidding processes. For projects such as road construction in Afghanistan, UNOPS infrastructure projects can involve a labour-based approach in which UNOPS engages and manages a local workforce. Its own infrastructure staff includes experts recruited from private-sector organizations with broad experience in the delivery of infrastructure projects.

59. Having previously rebuilt its financial viability after some years of difficulty, the UNOPS strategic plan for 2010-2013 emphasized developing certain types of activity in which it had experience and a comparative advantage. In September 2012, following a review of its strategy and performance, UNOPS decided to focus on three areas in which it considered that it had the greatest comparative advantage: project management, procurement and infrastructure. Together, those areas represent around four fifths of its business.

60. In 2012, UNOPS made the creation of a sustainable infrastructure practice group a top priority. By February 2013, the new group had been established and a director appointed. The Group will set standards, manage quality and enhance the value-add of UNOPS project implementation and advisory services.

61. The Group plans to produce a sustainable infrastructure strategy in 2013. The Board notes that the 2012 UNOPS staff survey found that only 39 per cent of infrastructure staff were familiar with the UNOPS strategic plan. UNOPS centres around the world are developing local strategies to strengthen their infrastructure business as their particular circumstances change. In developing its new infrastructure strategy, the Group will need to address the low awareness levels among UNOPS staff.

62. **UNOPS agreed with the Board's recommendation that it give careful consideration to ensuring that the new infrastructure strategy is understood by all infrastructure staff.**

Managing the timely completion of projects

63. The terms of UNOPS projects are set out in agreements with clients and UNOPS monitors its performance in delivering projects against the most recent agreement with its client — because agreements are amended if, for example, there is a change to costs or timescales. The agreements include operational completion dates and, where completion is likely to be delayed, the UNOPS process is to seek the client's agreement to an extension of time.

64. The Board, having previously highlighted that the financial closure of UNOPS projects is often delayed, sought to establish whether operational completion delays were also common. Although UNOPS has unanalysed information on whether project agreements have been amended, it has no organization-wide information on whether its projects are operationally completed by the original date or by the revised date agreed with the client.

65. All 10 projects examined at the project centre in Jerusalem were operationally complete (or were expected to be complete) by the date agreed with the client. In six of those projects, however, UNOPS had agreed with clients extensions of time. The view of UNOPS is that the extensions were all related to factors outside its control. The Board confirmed that such factors were at least a major cause of the delays.

66. The Board's analysis of the UNOPS client survey found that 60 of the 83 clients with experience of infrastructure projects (72 per cent) were satisfied that UNOPS provided timely responses and customer service. Nevertheless, in the absence of good information on performance against the important baseline of the original client agreement, there is a risk that the incidence of time extensions or delays to projects is not sufficiently visible to management and extensions may result in additional costs being incurred. UNOPS had not systematically examined the underlying factors so as to be better able to influence the timeliness of project delivery, such as by advising clients where their actions or those of beneficiaries risked causing delay.

67. **UNOPS agreed with the Board's recommendation that it examine the extent of changes to agreements and the causes of delays in the completion of projects throughout its infrastructure portfolio.**

68. UNOPS stated that it was taking steps to address the issue at the design stage of projects through incorporation into risk registers and client agreements and during implementation through, for example, management reporting and project boards.

Managing project costs

69. As a self-financing agency, UNOPS operates on a full-cost-recovery basis and usually uses the amount awarded for a project to fund:

(a) The direct costs of the project;

(b) A contribution to locally managed direct support costs of projects, such as local centre administration costs;

(c) A contribution to allocable costs, which relate to costs throughout UNOPS, such as medical insurance;

(d) A management fee.

70. The management fee, usually 7 per cent of project expense, is agreed with the client as a percentage of a project's direct costs and contributions to local support costs and allocable costs. Overall, fees charged on [illegible] UNOPS business are intended to cover the management overhead costs of UNOPS headquarters and regional offices. To strengthen its financial viability, UNOPS is revising its process so that, from July 2013, the minimum management fee for a new project will cover the estimated management overheads associated with that project.

71. According to the UNOPS client survey in 2012, only 38 clients with experience of infrastructure projects managed by UNOPS (49 per cent) were satisfied that UNOPS provided a cost-effective service. The Board considers this a relatively low level of satisfaction, although similar to that of other UNOPS clients. Because most UNOPS work arises from negotiations with clients (most commonly other United Nations agencies) rather than being won in a formal competition, there is a risk that there are insufficient incentives for UNOPS to keep project budgets as low as possible.

72. Where it becomes clear that a project is unlikely to be financially complete within the agreed budget, the UNOPS process is to seek an extension of cost from the client. As with performance against time, there is a lack of available information on the incidence of budget extensions in infrastructure budgets. On the Board's field visits, it saw that a minority of projects had required budget increases as a result of project scope increases. If a project incurs additional costs to UNOPS that it cannot recover from its clients, UNOPS has to write off any loss. In 2012, UNOPS disclosed three write-offs relating to infrastructure projects, with a total value of $840,695.

73. The Board examined whether UNOPS was managing projects in such a way as to typically spend budgets in their entirety or near-entirety (precision spending), rather than return unspent balances to clients. Having seen evidence of precision spending in the field, the Board analysed UNOPS data on spend against budget (awarded amount) for infrastructure projects with an output in 2011 that had been financially closed. Table II.4 shows the extent to which budgets for projects delivering in 2011 remained unspent.

Table II.4

Unspent budgets on infrastructure projects delivering in 2011

Unspent budget (percentage of awarded amount)	*Number of completed projects*
0	11 (35%)
1	10 (32%)
3-5	4 (13%)
7-10	2 (6%)
11-70	4 (13%)
All	**31 (100%)**

Source: Board analysis of UNOPS data (May 2013) on infrastructure projects where the awarded amount was for only one project that delivered an output in 2011 and had been financially closed.

74. The Board acknowledges that the patterns of spending can reflect some good management practices such as robust planning and budgeting, in addition to careful management of scope and costs. In some projects where there is likelihood of underspend, UNOPS has agreed with the client to extend the scope of work to include features or services not included in the agreed specification. For example, UNOPS redesigned the roof of a new gymnasium at a police training facility before construction began, which released funds that were used to add a basement to the facility.

75. UNOPS faces, however, some significant financial uncertainties in managing its projects, for example relating to the challenging operating environments and to the exchange rate risks borne by UNOPS. The Board considers that there remains a risk that incentives may be distorted and that the true cost of some projects may not be transparent. It also notes that most project budgets contain no specific contingency budget, perhaps because UNOPS considers that its clients tend to be unwilling to fund contingency budgets.

76. **UNOPS agreed with the Board's recommendation that its clients be encouraged to accept the inclusion of contingency budgets for projects, which might necessitate a corresponding reduction in other components of the budget, in addition to processes for releasing contingency that are acceptable to clients.**

77. **UNOPS also agreed with the Board's recommendation that it investigate the extent and causes of precision spending and assess whether its processes or guidance need to change as a result.**

Design quality of built infrastructure

78. UNOPS has a role in the design of infrastructure, including where it is engaged to manage the construction of a building that has already been designed. The Board identified some good design practices in the field. It saw buildings that had flexibility inbuilt, such as the construction of administrative buildings in a way that enabled them to be extended by one or two floors. It also found examples of value engineering being used to release funding for additional features of buildings or services that were wanted by beneficiaries and acceptable to donors.

79. The Board identified in the field that a minority of projects had problems with the design not meeting clients' needs, although this was usually rectified before completion. Those problems appeared to relate to designs provided or commissioned by client donors. The UNOPS usual processes do not include the systematic use of a design review, even where client donors provide the designs or arrange them through third parties. A design review process, in advance of work on site, would provide an expert view on whether a design will meet the needs of users, highlight faults to be rectified and may identify cost savings. It could therefore add value and reduce risk, but would also result in additional costs that UNOPS would need to recover from clients.

80. **UNOPS agreed with the Board's recommendation that it assess the value of mandatory design reviews for projects where the risk of problems with design is high and in such a way as to minimize the cost to clients.**

81. During the usual 12-month defects liability period, UNOPS would normally obtain information on the performance of a building and any quality concerns arising. UNOPS does not evaluate the subsequent performance of the buildings

because it is the implementing partner for projects rather than the initiator or funder. Its clients may carry out their own evaluations and do not normally fund UNOPS to do so. There is, therefore, a risk that UNOPS lacks information on how well its buildings are performing, for example in terms of their operating costs or need for repair after the defects liability period.

82. **UNOPS agreed with the Board's recommendation that it develop a mechanism to generate better information on the post-completion performance of buildings.**

Meeting the needs of clients

83. The survey of clients carried out by UNOPS in 2012 found that 58 of 83 clients with infrastructure project experience (70 per cent) were satisfied that UNOPS was delivering in accordance with their agreement, 21 (25 per cent) were neutral and 4 (5 per cent) were dissatisfied. The Board's meetings with donors and beneficiaries in the State of Palestine and Peru indicated that they were content with the quality of the buildings and facilities delivered.

84. UNOPS acknowledges the importance of good communications with its clients. To support this, it has developed a partner centre, which is a secure, invitation-only website for sharing information and obtaining feedback. Clients can view key documents and financial summaries and provide feedback on open and completed projects. Efforts to promote the facility notwithstanding, very few clients are using it and even fewer are providing feedback. This may be due in part to cultural issues or because some clients would rather give feedback in person.

85. **UNOPS agreed with the Board's recommendation that it develop a strategy to encourage clients to engage more with the partner centre, including providing feedback.**

Contributing to the sustainability agenda and wider priorities of the United Nations Office for Project Services

86. A core value of UNOPS is that the projects that it undertakes should be right for UNOPS. In part, this means that projects should contribute to the four high-level goals that UNOPS set out in its strategic plan for 2010-2013. These are set out in table II.5, together with a measure of the extent to which projects are focused on the goals.

Table II.5
Analysis of infrastructure projects by UNOPS goal, 2012

Goal	*Infrastructure projects with an output in 2012 focused on this goal*
Rebuilding peace and stability after conflict	127 (43%)
Early recovery of communities affected by natural disaster	38 (13%)
The ability of people to develop local economies and obtain social services	86 (29%)
Environmental sustainability and adaptation to climate change	43 (15%)

Source: Board analysis of UNOPS data (May 2013).

87. Within each of the goals, UNOPS has three cross-cutting objectives: gender equality and the empowerment of women; national capacity development; and environmental sustainability.

88. In practice, UNOPS centres may place greater emphasis on outputs than outcomes. This can reflect client funding of projects only up to output level, but the Board did see evidence that UNOPS aims to design and seek funding for projects that aim to influence outcomes and deliver outputs. Its review of projects and UNOPS information provided some evidence that projects were contributing to wider goals and objectives, such as the concerted efforts of the project centre in Jerusalem to improve health and safety on its building sites where good awareness and strict rules contributed to a strengthened safety culture and avoidance of the significant human and financial costs of serious accidents.

89. Through an annual results-based reporting exercise, UNOPS focuses on capturing and validating information on the outputs arising from its projects. While this represents good practice in terms of measuring outputs, the exercise does not attempt to measure wider outcomes. In developing its strategic plan for 2014 onwards, UNOPS is mindful of the need to improve information on outcomes to help it to prioritize work and better measure its impact.

90. **UNOPS agreed with the Board's recommendation that it work with its partners to establish processes to better capture information on the outcomes to which UNOPS activities contribute, in particular in terms of project beneficiaries.**

Project assurance

91. UNOPS has developed assurance processes supported by information technology to provide improved oversight of the compliance, performance and risks of its live engagements. UNOPS project managers have overall responsibility for their projects and local centre directors are required to provide monthly assurance to regions that engagements (typically involving one project, but sometimes more) are performing. The directors also carry out quarterly assurance reviews. These reviews involve a red-amber-green assessment against six criteria using an online tool, with the results available to all staff. Used well, they provide good visibility of individual projects for UNOPS headquarters. In the minority of cases where an infrastructure engagement includes multiple projects, however, the Board considers that visibility of the individual projects is less clear because UNOPS performance on the component projects may vary. The tool works best where an engagement covers one project.

92. **UNOPS agreed with the Board's recommendation that it either enhance the online assurance tool to enable drilling down to project-level assurance where an engagement includes multiple large projects or set up more of its engagements as single projects.**

93. In 2011, UNOPS introduced its leads system to control the set-up of new projects. Part of its functionality is to alert relevant internal project reviewers of a new project and have them sign off on it. The UNOPS developer of the project can also view similar UNOPS projects under way or completed elsewhere. The system provides management with assurance that risks are being considered during project initiation and should help UNOPS to make a good start in its new projects.

Collaborating within the United Nations system

94. One of the core values of UNOPS is harmonization within the United Nations and beyond. Its strategic plan for 2010-2013 incorporates the principles of the Paris Declaration on Aid Effectiveness. In the locations in which it operates, UNOPS projects are expected be a good fit with other agencies' work there.

95. The Board saw evidence that UNOPS was collaborating with other United Nations agencies in the field, but also evidence of some areas in which projects were less well integrated. UNOPS is a signatory to United Nations Development Assistance Frameworks in all but one of its top 10 countries or areas for infrastructure projects. For the exception, the State of Palestine, the Board understands that the United Nations country team is finalizing a United Nations Development Assistance Framework and UNOPS is the lead coordination agency for the infrastructure theme within it.

96. The Board considers that UNOPS needs to enhance collaboration within the United Nations system, promoting the UNOPS mandate and core skills in the areas in which it may have a comparative advantage over other agencies. At the country level, this should involve strengthening engagement with other agencies, in particular in the context of existing mechanisms such as United Nations Development Assistance Frameworks.

97. More broadly, the Board recognizes that UNOPS has been active in seeking to professionalize and enhance its core skills, improve the quality of the services that it delivers and, as previously mentioned, obtain independent recognition and certification to demonstrate its commitment to quality. UNOPS needs to consider how it can demonstrate the value that it can bring to the United Nations system by objectively demonstrating that the services that it offers represent good value for money and, where relevant, by benchmarking itself against other international, public and private providers in the same sectors.

D. Disclosures by management

1. Write-off of losses of cash, receivables and property

98. UNOPS informed the Board that in 2012 it had formally written off assets of $1.8 million (compared with $10.4 million in 2010-2011). This balance included $1.4 million written off against existing impairment provisions and a further $400,000 charged to expense in 2012.

2. Ex gratia payments

99. UNOPS informed the Board that it had made no ex gratia payments in 2012.

3. Cases of fraud and presumptive fraud

100. UNOPS reported 16 proven fraud cases in 2012 (compared with nine cases in 2010-2011). While it has not calculated the financial losses, it has established that they would not have been material to the financial statements. In two cases, UNOPS-contracted personnel had non-disclosed external financial interests in business entities to which they were involved in awarding contracts or which they supervised for UNOPS. In both cases, the individuals resigned before any action

was taken against them. The other 14 cases related to attempted medical insurance fraud with limited, if any, exposure to UNOPS. The cases reported to the Board include only those in which the fraud, or presumptive fraud, affects UNOPS directly.

E. Acknowledgement

101. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and the Deputy Director of UNOPS and the members of their staffs.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania

30 June 2013

Annex

Review of the status of implementation of the Board's recommendations for the year ended 31 December 2011

1. As at 31 March 2013, of the 31 outstanding recommendations made for 2010-2011 and previous bienniums, 15 (48 per cent) had been fully implemented, 12 (39 per cent) were under implementation, 3 (10 per cent) had not been implemented and 1 had been overtaken by events.

Recommendations not yet implemented

2. Of the three recommendations not yet implemented by UNOPS, two related to the need to prepare accurate IPSAS opening balances for assets. The third related to the need to implement better controls over assets purchased with project funds. UNOPS had not established appropriate procedures for identifying the project assets that it controlled and does not have adequate audit trails to support the valuation of other assets. UNOPS therefore excluded property, plant and equipment from its financial statements, adopting IPSAS transitional arrangements that allow up to five years to fully account for such assets. The Board therefore considers that these recommendations have not been implemented.

Recommendations partially implemented

3. Twelve recommendations are considered to have been partially implemented. Five of the open recommendations (items 4, 6, 7, 27 and 28) related to project management and in particular the need to close projects on a timely basis. Other partially implemented recommendations, including the four relating to the inter-fund account with UNDP (items 8, 9, 22 and 24), have been followed up in the relevant section of the Board's report.

Project management

4. UNOPS acknowledges the importance of timely project closure and has taken steps to increase speed, quality and accountability in finalizing the operational and financial stages. In mid-2011, UNOPS implemented a project closure tool to automate, streamline and speed up the project closure process and closed 450 old projects. The Board found, however, that, as at 31 December 2012, some 276 projects remained overdue for closure, with more than 18 months having elapsed since the project output was accepted by the client, and a further 169 projects overdue for closure by at least 18 months.

5. The Board's recommendations on enhancing the oversight of the Democratic Republic of the Congo Operations Centre to address operational challenges affecting its projects, and the associated recommendation on the adequacy of oversight of and support provided to centres operating in high-risk environments, were not due for implementation until September 2013. UNOPS has informed the Board that it plans to address these issues through a maturity mission to the Democratic Republic of the Congo in July 2013 and a number of other missions to higher-risk locations.

Contracts committee: exception reporting

6. The Board previously recommended that UNOPS should maintain adequate central records of cases of exception approved by the local contract and procurement committees and monitor, analyse and report at least annually to senior management on trends in the submission of such cases in order to determine whether they reflected underlying problems in the procurement function. While local committees were requested to prepare and disseminate such information, some further system changes are required to fully implement the recommendation and be able to properly analyse and report trend information to senior management.

Payroll validation

7. UNOPS has increased its monitoring of the completeness and accuracy of the payroll, including checks to confirm that separated staff are removed from the payroll. These procedures are not yet sufficiently robust and UNOPS proposes to develop a more systemic way to perform checks on separated staff, in addition to more detailed monthly validation procedures, and implement these changes by the end of June 2013.

Recommendations overtaken by events

8. In the light of the difficulties experienced in implementing IPSAS, the Board considers that UNOPS had not, as previously recommended, developed an adequate strategy to address the areas requiring attention.

Recommendations fully implemented

9. The Board considers 15 recommendations to have been fully implemented. They relate primarily to actions taken to appraise project risk before acceptance, various actions to enhance project accounting and other actions to accurately report employee benefits liabilities, the need to review the design, monitoring and implementation of the results-based budgeting process and implementing a formal disaster recovery and business continuity plan. Where relevant, these matters are discussed in other sections of the Board's report.

10. The table sets out the status of the Board's previous recommendations.

Summary of recommendations	*Paragraph reference (A/67/5/Add.10, chap. II)*	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
1. Establish a mechanism to separately identify and monitor projects that are implemented in terms of its advance funding policy so as to enable it to adequately manage the associated risks; record a receivable in its financial statements in relation to projects implemented without the funding in place	30	2010-2011	X			
2. Implement controls, supported by adequate reports, to monitor projects that are managed at an award level (group basis) to prevent overexpenditure on projects; record a receivable to reflect projects that have spent more than the funding available	32	2008-2009	X			

Summary of recommendations	*Paragraph reference (A/67/5/Add.10, chap. II)*	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
3. Incorporate a formal risk-based review of proposed projects before projects are accepted and implemented	43	2010-2011	X			
4. Draw lessons from its existing projects and consider measures to enable it to close projects in time; and address the backlog of projects that need closure	48	2010-2011		X		
5. Monitor the status of projects on a regular basis to ensure that the information is accurately reflected in Atlas	49	2010-2011	X			
6. Strengthen its oversight role over the Democratic Republic of the Congo Operations Centre in order to address the operational challenges affecting its projects in a timely manner	53	2010-2011		X		
7. Consider the adequacy of its oversight of and the support provided to centres operating in high-risk environments	54	2010-2011		X		
8. Resolve the dispute over inter-fund differences in its accounts with UNDP	62	2004-2005		X		
9. Strengthen its project monitoring controls relating to management service agreements in order to detect system coding errors and other errors in a timely manner; and obtain confirmation of outstanding amounts from UNDP before closure of its accounts to ensure that reconciling items are detected	64	2010-2011		X		
10. Review the process for the preparation of the financial statements to ensure that the gaps identified by the Board are addressed	71	2010-2011		X		
11. Develop adequate strategies to address the areas that require attention in its implementation of IPSAS	77	2010-2011				X
12. Fully recognize and provide for its end-of-service liabilities in its implementation of IPSAS	83	2010-2011	X			
13. Consider revising its policy for the valuation of the annual leave liability in its implementation of IPSAS	88	2010-2011	X			
14. Review the design, monitoring and implementation of its results-based-budgeting process and instruments to ensure the organizations and business units are accountable for specific results and the resources used to deliver them	94	2010-2011	X			

Summary of recommendations	*Paragraph reference (A/67/5/Add.10, chap. II)*	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
15. Maintain adequate central records of cases of exception approved by the local contract and procurement committees; and monitor, analyse and report at least annually to senior management on trends in the submission of such cases in order to determine whether they reflect underlying problems in the procurement function	99	2010-2011		X		
16. Implement procedures to review purchase orders in order to identify split purchase orders	100	2010-2011	X			
17. Address the discrepancies in its asset registers to ensure it is able to accurately account for its asset inventory and prepare accurate opening balances for IPSAS purposes; and address the inconsistencies in the asset inventory certification process	107	2008-2009			X	
18. Improve its controls on leave management by ensuring that: (a) all leave taken is approved and recorded in the system and is supported by adequate documentation; and (b) leave records are reviewed and reconciled on a regular basis	112	2010-2011	X			
19. Perform monthly validation checks on its payroll to ensure its completeness and accuracy; and monitor and review all terminations to ensure that employees are removed from the payroll once they have separated from the organization	114	2010-2011		X		
20. Implement a formal disaster recovery and business continuity plan that encompasses all types of disastrous events that would impact on both information systems processes and end user functions	118	2008-2009	X			
21. Implement controls and reports to differentiate accurately between project receivable and payable balances and project balances that represented overexpenditure (Similar to 2 above)	Annex	2008-2009	X			
22. Resolve the dispute over inter-fund differences in its accounts with UNDP (Similar to 8 above)	Annex	2004-2005		X		
23. Follow up the rejected project expenses and make appropriate accounting entries; and improve the validation of information captured on its system to ensure that the incidents of rejections are minimized (Similar to 9 above)	Annex	2008-2009	X			
24. Continue to follow up the unreconciled inter-fund differences in its accounts; and engage with the relevant United Nations agencies in order to resolve the old inter-fund differences	Annex	2004-2005		X		

Summary of recommendations	*Paragraph reference (A/67/5/Add.10, chap. II)*	*Financial period in which first made*	*Fully implemented*	*Partially implemented*	*Not implemented*	*Overtaken by events*
25. Consider revising its policy for the valuation of the annual leave liability in its implementation of IPSAS (Similar to 13 above)	Annex		X			
26. Develop a funding plan for end-of-service liabilities	Annex	2008-2009	X			
27. Analyse all currently listed projects and identify projects to be closed	Annex	2008-2009		X		
28. Ensure that the status of projects is regularly monitored and accurately reflected in Atlas; and urgently complete the project closure exercise	Annex	2008-2009		X		
29. Address the discrepancies noted in its asset records; and review all asset registers to ensure that other similar discrepancies are not detected (Similar to 17 above)	Annex				X	
30. Implement controls to enable project managers to better control assets purchased with project funds; and investigate the circumstances around the use of project funds to purchase these fixtures	Annex	2008-2009			X	
31. Implement a formal disaster recovery plan and business continuity plan that encompasses all types of disastrous events that would impact on both information systems processes and end user functions (Similar to 20 above)	Annex		X			
Total			**15**	**12**	**3**	**1**
Percentage share of total			**48**	**39**	**10**	**3**

Chapter III

Financial report for the year ended 31 December 2012

A. Introduction

1. In accordance with the financial regulations and rules of UNOPS, the Executive Director of UNOPS has certified the 2012 financial statements for the organization and is pleased to submit them to the Executive Board and the General Assembly, as well as making them publicly available. The financial statements have been audited by the Board of Auditors and its unqualified audit opinion and report are attached. Overall, UNOPS is in good financial health and has the resources necessary to meet the challenges that lie ahead.

B. Accountability and transparency as a core value of the United Nations Office for Project Services

2. The UNOPS strategic plan for 2010-2013 recognized accountability for results and the efficient use of resources as a core value of the organization. This value has been accompanied and underpinned by a set of management reforms dealing with control systems, efficiency measures and public disclosure. In this endeavour, UNOPS has consistently sought to adopt internationally recognized standards and best practices in use by public and private organizations.

3. Such standards include ISO 9001 quality management certification of its management systems, Chartered Institute of Purchasing and Supply certification for procurement, "projects in controlled environments 2" (PRINCE2) standards for project management and International Aid Transparency Initiative standards for public disclosure. Now, for the first time, UNOPS financial statements are prepared in accordance with IPSAS, which replaced the modified cash basis under the United Nations system accounting standards.

4. UNOPS firmly believes that these standards improve its efficiency and allow its stakeholders and partners to better understand and interact with it.

C. Results of the United Nations Office for Project Services in 2012

Highlights

5. The mission of UNOPS is to expand the capacity of the United Nations system and its partners to implement peacebuilding, humanitarian and development operations that matter for people in need. UNOPS is a self-financing organization without any assessed contributions from Member States and relies on the revenue that it earns from project implementation, transactional and advisory services.

6. Key operational results in 2012 included constructing or renovating 40 schools, 7 hospitals, 25 police stations, 2,631 km of roads and 9,661 shelters and relief facilities. More than 21,000 individuals were trained in various fields, 451 events were organized, almost 15 million medical supplies were handled and mine action work was supported in 14 countries. A full account is provided in the UNOPS annual report (DP/OPS/2013/2).

7. The financial performance of UNOPS in 2012 could be summarized in the following headline figures:

(a) Financial constraints in many countries and partner organizations and a reduction in official development assistance notwithstanding, UNOPS was able to deliver services worth $985.6 million, a level of operational activity comparable with 2011;

(b) The net surplus for the year was $8.2 million, slightly higher than the previous year and well above expectation;

(c) The reserves at year-end stood at $62.9 million, exceeding the target set by the Executive Board.

8. This positive financial result helps to build resilience in an environment that will continue to be challenging in the coming years. It also enables UNOPS to invest in improving the ways in which it can contribute to partners' results.

Implementation of the International Public Sector Accounting Standards

9. In accordance with IPSAS, a complete set of financial statements has been prepared, as follows:

(a) *Statement of financial position*. This statement shows the financial strength of UNOPS as at 31 December 2012 by reporting the value of its assets and liabilities;

(b) *Statement of financial performance*. Under IPSAS, revenue is reported as it is generated during the year, matched against the corresponding expenses incurred. The net surplus or deficit is a useful measure of financial performance and indicates whether UNOPS has achieved its self-financing objective for the period;

(c) *Statement of changes in net assets*. This statement reports all changes in the value of assets and liabilities, including those excluded from the statement of financial operations, such as certain adjustments to employee liabilities;

(d) *Statement of cash flows*. This statement reflects the changes in the cash position of UNOPS by reporting the movement of cash, classified by operating and investing activities. The ability of UNOPS to generate and maintain cash is an important aspect in assessing its financial resilience. For a more complete picture of liquidity, investments also need to be taken into account;

(e) *Statement of comparison of budget and actual amounts*. This statement compares the actual operational result with the main budget elements previously approved by the Executive Board.

10. The financial statements are supported by notes comprising accounting policies and supporting explanations.

11. The adoption of IPSAS on 1 January 2012 has meant that the figures in the 2012 financial statements are not always comparable with those of the biennium 2010-2011. Where possible, 2011 figures have been recalculated to enable a year-on-year comparison, but the calculation of a comparative figure was not always possible given the fundamental differences between the previous accounting standards and IPSAS. Differences include the change in the period covered by the financial statements from a biennium to a year, the change in how revenue and expenses are recognized and matched and the rules on how assets and liabilities are recognized and measured.

Financial performance

12. In 2012, total revenue generated by UNOPS amounted to $985.6 million. Under IPSAS rules, $683.2 million is reported in the statement of financial performance, in addition to agency contracts totalling $302.4 million, as explained in the notes to the statements. IPSAS distinguishes between a contract where UNOPS acts as a principal and a contract where UNOPS acts as an agent. For accounting purposes, where UNOPS acts as a principal, the revenue is recognized in full on the statement of financial performance. Where UNOPS operates as an agent on behalf of its partner, only the net revenue is reported on the statement of financial performance. Including agency transactions, total delivery by UNOPS in 2012 was $985.6 million, which, as mentioned, was broadly consistent with the level of activity in 2011. The table provides a summary of revenue and expenses against the three core services of UNOPS: infrastructure, project management and procurement. These are derived from the financial statements, which report the same IPSAS figures against its five project activities (see note 17).

13. After deducting annual expenses and long-term employee liabilities charges, the net surplus in 2012 was $8.2 million.

Revenue and expenses

	IPSAS revenue	*Add agency transactions*	*Total gross delivery*
Revenue			
Infrastructure	253.8	2.6	256.4
Project management	409.2	103.5	512.7
Procurement	17.2	196.3	213.5
Miscellaneous revenue	3.0		3.0
Total revenue	**683.2**	**302.4**	**985.6**

	IPSAS expenses		*Total gross expenses*
Expenses			
Infrastructure	(238.7)	(2.6)	(241.3)
Project management	(367.2)	(103.5)	(470.7)
Procurement	(9.3)	(196.3)	(205.6)
Project expenses	**(615.2)**	**(302.4)**	**(917.6)**
Less: UNOPS administrative costs	(61.4)		(61.4)
Total expenses	**(676.6)**		**(979.0)**
Surplus from services	6.6		6.6
Add: net financial income	1.6		1.6
UNOPS 2012 surplus	**8.2**	–	**8.2**

14. Under IPSAS, the statement of financial performance replaces the income and expenditure account. Until 2011, only corporate income and expenditure relating to the UNOPS management fee was reported on a cash and commitment basis. Now, under IPSAS, the entire organization's revenue and expenses, both project and corporate, are reported based on when goods and services are received and provided to partners. This has resulted in the revenue figure in the statement of financial performance increasing to $683.2 million in 2012, compared with income of $168.0 million in the financial statements for the biennium 2010-2011, as previously reported in the statement of income and expenditure. This does not imply an actual increase in business, but is due to the change in the way in which operations are reported under IPSAS.

United Nations Office for Project Services delivery and direct support

15. UNOPS receives funding from many sources and spends and disburses those same resources in accordance with a range of contract arrangements. In 2012, 65 per cent of UNOPS delivery was on behalf of the United Nations system. UNDP continued to be the most important partner for UNOPS, accounting for funding of $299 million, of which $36 million came from UNDP regular resources, with the remaining $263 million coming from or being administered by UNDP. This included $18 million where UNOPS was in direct partnership with UNDP, $71 million from the Global Environment Facility, $104 million in management service agreements, where funding typically came from host countries, and $70 million from UNDP multi-partner trust funds on behalf of the United Nations Development Group. The second-largest United Nations partner was the Department of Peacekeeping Operations of the Secretariat, accounting for delivery of $174.3 million.

16. From another perspective, direct support provided by UNOPS to Governments made up 31 per cent of all the services provided by the organization, including partnerships with international financial institutions such as the World Bank and management service agreements. The largest partnerships where UNOPS provided such direct support were with the Governments of Afghanistan and Argentina. The largest countries of delivery were Afghanistan, Myanmar, Peru, Somalia and South Sudan.

17. A full account is provided in the UNOPS annual report (DP/OPS/2013/2).

Assets and liabilities

18. Under IPSAS, the statement of financial position replaces the balance sheet. This statement is a comprehensive summary of UNOPS assets and liabilities. All UNOPS liabilities and assets are included, except for the property, plant and equipment asset category. This is because UNOPS has applied the IPSAS transitional provision that allows the organization up to five years to bring property, plant and equipment on to the statement of financial position.

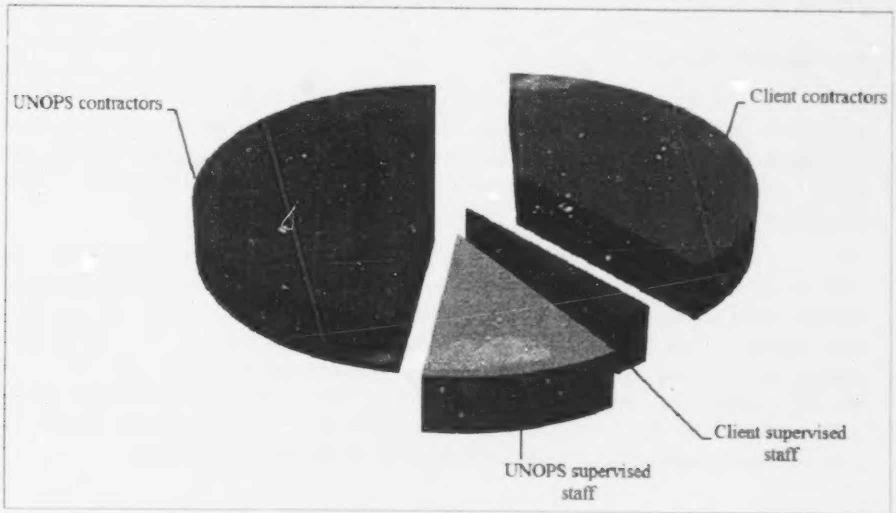
19. The effect of adopting IPSAS on the overall measurement of assets and liabilities as at 31 December 2011 is reported in note 28, which compares the 2011 closing balances under the United Nations system accounting standards with the 2012 opening balances under IPSAS. The main changes arose from the way in which revenue and expenses are recognized under IPSAS, given that this had the effect of eliminating the balance for unliquidated obligations and remeasuring the value of accounts payable, accruals, provisions and contributions received in

advance. There was also a recategorization between cash, cash equivalents and investments.

Personnel and employee benefits

20. UNOPS has a skilled and motivated workforce. As at 31 December 2012, there were 6,362 individuals under contract, consisting of 876 staff employed under the Staff Regulations and Rules of the United Nations and 5,486 persons engaged on individual contracts. Of the total labour force, 59 per cent were supervised and worked for UNOPS, with the remaining 41 per cent working for partners. This is illustrated in the figure.

Status and deployment of UNOPS personnel



21. In this workforce, 3,778 individuals worked on corporate activities or projects where UNOPS acted directly as a principal. The remaining 2,584 individuals were engaged on projects where UNOPS acted as an agent, providing contract administration services to United Nations agencies and international organizations.

22. As a good employer, UNOPS provides benefits to its personnel in accordance with their contracts of employment, whether an individual is supervised by UNOPS or by a partner organization. In accordance with IPSAS requirements, the employee benefits are recognized in the financial statements.

23. As at 31 December 2012, the liability to fund after-service health care and end-of-service benefits for qualifying members of staff stood at $39.2 million, as independently estimated by a specialized consulting firm. The details of the calculation are found in note 13. While this represents the UNOPS best estimate of the liability, it remains subject to a degree of uncertainty, which is reported in the sensitivity analysis. Recognizing this uncertainty, the actuarial assumptions will be kept under review and the estimate of the liability updated annually.

Financial position at the end of 2012

24. As at 31 December 2012, UNOPS had assets of $1,298.9 million, which more than covered liabilities of $1,236.0 million, leaving net assets of $62.9 million. Although UNOPS now recognizes all liabilities, both long-term and short-term, the assets do not yet include property, plant and equipment, which will be added at a later date upon completion of the transition period allowed by IPSAS. This means that, at present, the net assets of UNOPS are understated.

25. The most important assets were cash and investments, which amounted to $1,257.5 million, an increase of $287.3 million over the year. Some two thirds of the cash and investments reflect contributions received in advance from partners that are repayable to them. This is a strong cash position, which will be used to fund present and future programmes of work with partners.

Operational reserves

26. As at 31 December 2012, after allowance had been made for all known liabilities, the operational reserves held by UNOPS stood at $62.9 million. Significantly, a credit of $21.4 million arising from an actuarial valuation of employee benefits at year-end has been recognized and added to the accumulated surplus of UNOPS operations, amounting to $41.5 million.

27. The Executive Board has set a target for operational reserves based on 4 per cent of the rolling average of the combined administrative and project expenditure for the previous three years. The application of the formula results in a reserve requirement of $46.8 million for 31 December 2012. The method of calculating an appropriate level of the reserve will need to be amended with the introduction of IPSAS. UNOPS has engaged a qualified accounting firm to review this matter independently. In 2013, UNOPS will recommend to the Executive Board an appropriate amendment to the financial regulations and rules of UNOPS.

Liquidity

28. The statement of cash flows records that cash and cash equivalents held by UNOPS increased by $150.3 million in 2012. During the same period, UNOPS also increased its investments through the UNDP treasury by an additional $137.0 million, meaning that, over the year, UNOPS generated $287.3 million additional cash compared with its expenditure.

Budget outcome

29. The move to IPSAS includes the preparation for the first time of a statement of comparison of budget and actual amounts. This statement reports actual revenue and expenses against the Executive Board-approved management budget covering UNOPS administrative costs for the biennium 2012-2013.

30. For 2012, the overall budgetary outcome was positive, with UNOPS achieving a surplus of $6.6 million from its delivery of services, together with finance income of $1.6 million. The UNOPS revenue from management fees, reimbursable services and advisory income totalled $65.1 million in 2012, slightly down on the budgeted revenue target of $66.9 million. During the year, management action to contain costs resulted in savings of $13.0 million.

D. System of internal control and its effectiveness

31. The Executive Director is accountable to the Executive Board for establishing and maintaining the system of internal control that conforms and complies with the financial regulations and rules of UNOPS.

Main elements of the system of internal control

32. The main elements of UNOPS internal control comprise the policies, procedures, standards and essential activities designed to ensure that operations are conducted in an economical, efficient and effective manner. They include adherence to United Nations policies established by the General Assembly, the Economic and Social Council, the Secretary-General and the Executive Board; the controlled documentation of processes, instructions and guidance promulgated by the Executive Director through organizational directives; the delegation of authority through written instruction; the system of personnel performance management; controls in the UNOPS value chain, including detailed financial controls and engagement acceptance procedures; and the monitoring and review of operational results by management and the Executive Board.

33. UNOPS risk management is an integral part of the internal control framework. The Executive Director maintains a risk management system to manage and control financial and other types of risks, including the identification, evaluation and measurement of possible impact on UNOPS, and the selection and maintenance of solutions to mitigate risk. The objective of risk management is to strengthen UNOPS ability to anticipate and respond to opportunities and threats. Risk management informs the prioritization of strategic alternatives and mitigation measures, in particular in the context of the UNOPS current strategy and business planning. Furthermore, risk management helps to calibrate UNOPS internal controls in the context of continual improvement of business processes, instructions, guidance, tools and management information systems. The formal risk management processes of UNOPS can still be improved, however, which is why the Executive Director has implemented initiatives to develop overall organizational maturity.

Effectiveness of the system of internal control

34. UNOPS internal control is a continuous process designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the expected results and strategic objectives. The Executive Director has reviewed the effectiveness of the system as reinforced by UNOPS risk management processes. The review was informed by his regular meetings with key elements of the governance arrangements, including the Executive Board, the Strategy and Audit Advisory Committee, the Audit Advisory Subcommittee, the Director of the Internal Audit and Investigations Group, the Ethics Officer and the Board of Auditors. He also took into account the views of senior managers and staff at headquarters, as well as views expressed during his visits to or regular contacts with regional and country offices. On the basis of his review, he provided a reasonable, but not absolute, assurance of the effectiveness of the system and confirmed that he was not aware of any significant concerns in that regard.

E. Looking ahead

Strategic plan for 2014-2017

35. In 2012 and 2013, UNOPS engaged extensively with stakeholders and partners to gain feedback on its performance against the current strategic plan. It also studied current events and emerging trends in the world that affected the work of the United Nations. Guided by this analysis, it developed its new strategic plan, which covers the period 2014-2017. The plan will be considered by the Executive Board at its annual meeting in June 2013.

36. The proposed new strategy sees a sharper focus on how UNOPS contributes to partner results in its three delivery practices: sustainable project management, sustainable procurement and sustainable infrastructure. UNOPS is also expanding its ability to respond to the increasing demand for national capacity development through advisory services in those areas.

Financial viability of the United Nations Office for Project Services

37. The UNOPS finance team has assessed the capability of UNOPS to continue operating at its current level of activity in 2013 and into 2014. Its assessment included the review of the financial activities in the first quarter of 2013, progress in the final year of the strategic plan for 2010-2013, the forward order book, the levels of cash and operational reserves and the strategic plan for 2014-2017. On the basis of that analysis, it is the view of the Executive Director that UNOPS will be able to increase its relevance and remain in operation for many years to come. Accordingly, the 2012 financial statements have been prepared on a going-concern basis.

Chapter IV

Financial statements for the year ended 31 December 2012

Statement I

United Nations Office for Project Services

Financial position as at 31 December 2012

(Thousands of United States dollars)

	Note	31 December 2012	1 January 2012 (restated balance)
Assets			
Non-current assets			
Intangible assets	6	285	–
Long-term investments	9	351 098	215 646
Total non-current assets		**351 383**	**215 646**
Current assets			
Inventories	7	1 592	841
Accounts receivable	11		
Project accounts receivable		19 801	26 906
Prepayments		14 100	11 910
Other accounts receivable		5 571	5 935
Short-term investments	9	385 149	383 594
Cash and cash equivalents	12	521 334	370 993
Total current assets		**947 547**	**800 179**
Total assets		**1 298 930**	**1 015 825**
Liabilities			
Non-current liabilities			
Employee benefits	13	39 890	53 410
Total non-current liabilities		**39 890**	**53 410**
Current liabilities			
Employee benefits	13	14 974	13 365
Accounts payable and accruals	14	318 749	167 318
Project cash advances received	15		
Deferred revenue		589 664	541 327
Cash held as agent		272 341	206 448
Short-term provisions	20	380	600
Total current liabilities		**1 196 108**	**929 058**
Total liabilities		**1 235 998**	**982 468**
Net assets		**62 932**	**33 357**
Reserves			
Operational reserves	16	62 932	33 357

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations Office for Project Services

Financial performance for the year ended 31 December 2012

(Thousands of United States dollars)

	Note	*31 December 2012*
Revenue		
Exchange revenue		
Revenue from project activities	17	680 126
Miscellaneous revenue	17	3 034
Total revenue		**683 160**
Expenses		
Contractual services	17	193 262
Operational costs		154 647
Salaries and benefits — staff	18	128 047
Salaries and benefits — other personnel	18	117 043
Office supplies and consumables		54 892
Travel expenses		24 440
Other expenses		4 257
Amortization of intangible assets	6	27
Total expenses		**676 615**
Finance income	19	1 713
Foreign exchange gains/(losses)	19	(82)
Net finance income		**1 631**
Surplus for the period		**8 176**

The accompanying notes are an integral part of the financial statements.

Statement III

United Nations Office for Project Services

Changes in net assets for the year ended 31 December 2012

(Thousands of United States dollars)

	Note	*Operational reserve*
Closing balance as at 31 December 2011	28	63 261
Changes resulting from initial application of IPSAS	28	(29 904)
Adjusted opening balance as at 1 January 2012	**16**	**33 357**
Actuarial gains/(losses)	16	21 399
Surplus for the period		8 176
Closing balance as at 31 December 2012	**16**	**62 932**

The accompanying notes are an integral part of the financial statements.

Statement IV

United Nations Office for Project Services

Cash flows for the year ended 31 December 2012

(Thousands of United States dollars)

	Note	*31 December 2012*
Cash flows from operating activities		
Surplus for the financial period		8 176
Non-cash movements:		
Amortization of intangible assets	6	27
Finance income	19	(1 713)
Foreign exchange losses	19	82
Net surplus before changes in working capital		**6 572**
Changes in working capital		
Increase in provision for doubtful debts	11	576
Decrease in accounts receivable	11	6 893
Increase in inventories	7	(751)
Increase in prepayments	11	(2 190)
Increase in employee benefits (net of actuarial gains)	13	9 488
Increase in accounts payable and accruals	14	151 431
Increase in project cash advances received	15	114 230
Decrease in provisions	20	(220)
Cash flow impact on changes in working capital		**279 457**
Finance income received on cash and cash equivalents	19	891
Net cash flows from operating activities		**286 920**
Cash flows from investing activities		
Acquisitions of intangible assets	6	(312)
Proceeds from maturity of investments	9	649 766
Purchase of investments	9	(795 791)
Finance income received from investments	19	13 709
Finance income allocated to projects	19	(3 869)
Net cash flows from investing activities		**(136 497)**
Less: Foreign exchange losses	19	(82)
Net increase in cash and cash equivalents		**150 341**
Cash and cash equivalents at the beginning of the period		**370 993**
Cash and cash equivalents at the end of the period	**12**	**521 334**

The accompanying notes are an integral part of the financial statements.

Statement V

United Nations Office for Project Services

Comparison of budget and actual amounts for the year ended 31 December 2012

(Thousands of United States dollars)

	Biennial 2012-2013 management budget[a]	*2012 management budget*		*2012 amounts on comparable basis*	*Difference between final budget and actual*
	Original	*Original*	*Final*	*Actual*	
Revenue					
Management fees	118 500	52 096	52 096	58 648	(6 552)
Advisory and reimbursable services income	20 200	9 921	9 921	4 621	5 300
Miscellaneous revenue	10 000	4 912	4 912	2 681	2 231
Total revenue for the period	**148 700**	**66 929**	**66 929**	**65 950**	**979**
Expenses					
Posts	50 900	25 000	25 068	21 876	3 192
Common staff costs	30 000	14 735	18 525	14 877	3 648
Travel	7 600	3 733	3 531	2 632	899
Consultants	23 000	11 297	13 331	10 787	2 544
Operating expenses	23 800	11 690	7 718	6 811	907
Furniture and equipment	1 000	491	504	1 239	(735)
Reimbursements	3 400	1 670	102	90	12
Provisions	8 000	3 929	4 000	2 423	1 577
Implications of IPSAS	1 000	1 000	1 000	–	1 000
Total expenses for the period	**148 700**	**73 545**	**73 779**	**60 735**	**13 044**
Net finance income	–	–	–	1 450	(1 450)
Surplus/(deficit) for the period	–	**(6 616)**	**(6 850)**	**6 665**	**(13 515)**

[a] DP/OPS/2011/5.

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1
Reporting entity

1. The mission of UNOPS is to expand the capacity of the United Nations system and its partners to implement peacebuilding, humanitarian and development operations that matter for people in need. UNOPS is a self-financing organization without any assessed contributions from Member States and relies on the revenue that it earns from project implementation and other services. UNOPS was established as an independent entity on 1 January 1995, with its headquarters in Copenhagen.

2. UNOPS activities and its management budget are set by its Executive Board. The UNOPS mandate, reconfirmed by the Board in 2010, is to act as a service provider to various actors in the development, humanitarian and peacekeeping arenas, including the United Nations, its agencies, funds and programmes, donor and recipient Governments, intergovernmental organizations, international and regional financial institutions, non-governmental organizations, foundations and the private sector. The role of UNOPS is to be a central resource for the United Nations system in procurement and contracts management, as well as in civil works and physical infrastructure development, including the relevant capacity-development activities. UNOPS delivers value-added contributions by providing efficient, cost-effective services to development partners in the areas of project management, human resources, financial management and common/shared services. UNOPS follows a results-oriented approach to the services that it provides. It launches and implements new project operations swiftly, transparently and in a fully accountable manner. It customizes its services to individual partner needs, offering everything from stand-alone solutions to long-term project management. Services include:

(a) *Project management*. UNOPS is responsible for the delivery of one or more outcomes of projects where it coordinates all aspects of the implementation of the project as principal;

(b) *Infrastructure*. UNOPS uses its expertise and experience to construct emergency and permanent infrastructure. It remains responsible for the construction works and therefore accounts for these projects as principal;

(c) *Procurement*. UNOPS uses its procurement network to purchase equipment and supplies on behalf of and based on the specifications of its customers. It does not take ownership of the procured items because these are delivered directly to the end customer;

(d) *Other services*. Human resource management services include recruitment, appointment and administration of personnel contracts undertaken by UNOPS on behalf of its partners. The appointed individuals do not work under the direction of UNOPS. Another service offered is fund management or administration, whereby UNOPS acts as an agent in accordance with a mandate set by the partner.

3. The accounting for agent and principal transactions is further described in the accounting policy on project accounting.

Note 2
Basis for preparation

4. Regulation 23.01 of the UNOPS financial regulations and rules requires the preparation of annual financial statements on an accrual-accounting basis in accordance with IPSAS. Where IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard is adopted. The accounting policies have been applied consistently in the preparation and presentation of these financial statements.

5. These financial statements are prepared on the basis that UNOPS is a going concern and will continue in operation and meet its mandate for the foreseeable future.

6. These financial statements are the first set prepared on an accrual basis and cover the period from 1 January to 31 December 2012. UNOPS has adopted IPSAS and the table provides a summary of how each standard has been applied. Three transitional provisions have been adopted by UNOPS: the financial statements and notes do not disclose comparative information from the previous financial period (International Public Sector Accounting Standard 1) other than for the restated opening financial position at 1 January 2012 and material related notes; UNOPS will not recognize property, plant and equipment for a period not exceeding five years from 1 January 2012 (Standard 17); and UNOPS is recognizing intangible assets on a prospective basis (Standard 31).

7. There are currently no exposure drafts or standards issued by the IPSAS Board awaiting implementation. There are no significant changes to the standards proposed for 2013 that are likely to affect the financial statements of UNOPS.

Title	*Application*	*Transitional arrangements and early adoption*
Presentation of financial statements	Full application, subject to transitional arrangements	The 2012 financial statements and notes will not disclose comparative information other than for the restated opening financial position at 1 January 2012 and material related notes
Cash flow statements	Full application The cash flow statement will be presented using the indirect method	
Accounting policies, changes in accounting estimates and errors	Full application	
Effects of changes in foreign exchange rates	Full application	
Borrowing costs	Not applicable — UNOPS does not borrow funds	

Title	*Application*	*Transitional arrangements and early adoption*
Consolidated and separate financial statements	Not applicable — UNOPS controls no entities	
Investments in associates	Not applicable — UNOPS has no associates	
Interests in joint ventures	Not applicable — UNOPS has no joint ventures	
Revenue from exchange transactions	Full application	
Financial reporting in hyperinflationary economies	Not currently applicable	
Construction contracts	Full application	
Inventories	Full application	
Leases	Full application	
Events after the reporting date	Full application	
Financial instruments: disclosure and presentation	Not applied — UNOPS has chosen early adoption of IPSAS 28-30	
Investment property	Not applicable — UNOPS has no relevant investments	
Property, plant and equipment	Full application, subject to transitional provisions	UNOPS has adopted the transitional provision and will not be recognizing property, plant and equipment for a period not exceeding five years from 1 January 2012
Segment reporting	Full application	
Provisions, contingent liabilities and contingent assets	Full application	
Related party disclosures	Full application	
Impairment of non-cash-generating assets	Full application	
Disclosure information about the general government sector	Not applicable — UNOPS is an international organization	

Title	*Application*	*Transitional arrangements and early adoption*
Revenue from non-exchange transactions	Not material to UNOPS operations	
Presentation of budget information in financial statements	Full application	
Employee benefits	Full application	
Impairment of cash-generating assets	Full application	
Agriculture	Not applicable — UNOPS has no agricultural investments	
Financial instruments: presentation	Full application Early adoption by UNOPS	
Financial instruments: recognition and measurement	Full application Early adoption by UNOPS	
Financial instruments: disclosures	Full application Early adoption by UNOPS	
Intangible assets	Full application, subject to transitional provision	UNOPS is recognizing intangible assets on a prospective basis
Service concession arrangements: grantor	Not applicable — UNOPS engages in no service concession arrangements	

Note 3
Summary of significant accounting policies

8. The principal accounting policies applied in the preparation of these financial statements are set out below.

Project accounting

9. International Public Sector Accounting Standard 9 distinguishes between a contract where UNOPS acts as a principal and a contract where UNOPS acts as an agent. Revenue from a project where UNOPS acts as a principal is recognized in full on the statement of financial performance, while only the net revenue for projects where UNOPS operates as an agent on behalf of its partners is reported on that statement. Additional information on these agency transactions is provided in note 17. Regardless of whether UNOPS is a principal or an agent, all project-related receivables and payables are recognized in the statement of financial position at period-end and reflected in the statement of cash flows. In particular, where UNOPS receives amounts in advance from partners, the excess of cash received over costs

and expenses incurred is treated as project cash advances received and reported as a liability. For projects where costs incurred exceed cash received, the balance is reported as a receivable.

Functional and presentation currency

10. The United States dollar is the functional currency of UNOPS and is the currency of the financial statements. The amounts in the financial statements and notes are rounded to the nearest thousand United States dollars. Transactions, including non-monetary items, in currencies other than the United States dollar are translated into dollars at the United Nations operational rate of exchange on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and unrealized exchange differences (gains and losses) from the translation at year-end are recognized in the statement of financial performance, except for items relating to agency transactions, which are reported in note 17.

Financial instruments

11. Financial assets and financial liabilities are recognized when UNOPS becomes a party to the contractual provisions of the instrument. They are measured at fair value and reviewed for any impairment at each period-end. They are reported gross unless there is a legal right to offset. Should any indicators of impairment arise, financial assets will be assessed for their recoverability.

12. Cash and cash equivalents comprise cash on hand, cash at bank, time deposits and money market funds held with financial institutions where the initial term was less than three months. They are held at nominal value, less an allowance for any anticipated losses.

13. Investments held by UNOPS are mainly in bonds and notes, certificates of deposit, commercial papers and time deposits with an initial term in excess of three months. All the investments are classified as held to maturity, given that they are non-derivative financial assets with fixed or determinable payments and fixed maturities that UNOPS has the positive intention and ability to hold to maturity. Investments are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequent measurements are at amortized cost, using the effective interest method.

14. The interest income earned on investments is measured using the effective interest method.

15. Receivables are measured at fair value, i.e. original invoice amount less an allowance for uncollectable amounts. This includes amounts relating to retentions for work performed but not yet paid for by the client.

16. Payables are measured at fair value, i.e. the amount expected to be paid to discharge the liability, and include project cash advances received.

Property, plant and equipment

17. In 2012, UNOPS worked to obtain the necessary information on the existence and valuation of property, plant and equipment to ensure full compliance with the requirements of IPSAS. Difficulties were encountered, however, in particular in the application of the definition of property, plant and equipment for project assets.

Accordingly, UNOPS has chosen to adopt the transitional provisions of International Public Sector Accounting Standard 17 and not recognize property, plant and equipment in the statement of financial position for a period of up to five years.

18. The classes of property, plant and equipment to be recognized by UNOPS in future are: land and buildings; plant and equipment; vehicles; information and communications technology equipment; and assets under construction.

19. For the 2012 financial statements, UNOPS implemented International Public Sector Accounting Standard 17 as follows:

(a) Property, plant and eqnipment were not recognized;

(b) No adjustment for the first-time recognition of property, plant and equipment to the opening balance of accumulated surplus at 31 December 2011 was made;

(c) Expenditure on property, plant and equipment in 2012 was not capitalized, but treated as an operating expense;

(d) No associated deprecation or impairment of property, plant and equipment expenses was recognized.

20. The policy will be reviewed annually and updated with decisions relating to the transitional arrangements.

21. UNOPS has no heritage assets.

Intangible assets

22. UNOPS intangible assets comprise purchased software packages, internally developed software and intangible assets under construction. Annual software licences are expensed and adjusted as necessary for any element of prepayment. In accordance with the transitional provisions of International Public Sector Accounting Standard 31, UNOPS recognizes intangible assets prospectively at historic cost.

23. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful lives for intangible asset classes are as follows:

Intangible asset class	*Estimated useful life (years)*	*Capitalization threshold (United States dollars)*
Internally developed software	6	100 000
Software acquired	3	2 500

24. Intangible assets are subject to an annual review to confirm the remaining useful life and identify any impairment.

Inventories

25. Bulk raw materials purchased in advance for the implementation of projects and supplies (such as fuel) on hand at the end of the financial period are recorded as inventories. These inventories are valued at the lower of cost and net realizable value. Cost is estimated using the first-in-first-out method.

Leases

26. UNOPS has reviewed the property and equipment that it leases and in no instance does it have a significant portion of the risks and rewards of ownership. Accordingly, all leases are recognized as operating leases.

27. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease. A provision is established to cover the cost of making good dilapidations on leasehold properties where required to do so under the terms of the lease.

Employee benefits

28. Where UNOPS holds the contract of employment of personnel and employee benefits are payable, UNOPS recognizes the following:

(a) Short-term employee benefits that fall due wholly within 12 months after the end of the accounting period in which employees render the related service;

(b) Post-employment benefits, the most important of which are after-service health insurance and repatriation benefits;

(c) Other long-term employee benefits.

Short-term employee benefits

29. Short-term employee benefits comprise salaries, the current portion of home leave, annual leave and those elements of other employee benefits (including assignment grants, education grants and rental subsidies) that are payable within one year of period-end and are measured at their nominal values.

Post-employment benefits

30. UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Fund is a multi-employer-funded defined benefit plan. The financial obligation of the organization to the Fund consists of its mandated contribution at the rate established by the Assembly, together with any share of any actuarial deficiency payments under article 26 of the regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date.

31. As a participating organization, UNOPS is not in a position to identify its share of the underlying financial position and performance of the plan on the basis of International Public Sector Accounting Standard 25 with sufficient reliability for accounting purposes and will therefore account for this plan as a defined contribution plan.

32. The after-service health insurance programme and the repatriation grant at UNOPS are defined benefit plans. Accordingly, a liability is recognized to reflect the present value of the defined benefit obligation, adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The actuarial valuations are carried out using the projected unit credit method.

Long-term employee benefits

33. Long-term employee benefits comprise the non-current portion of home leave entitlements.

Provisions and contingencies

34. Provisions are made for future liabilities and charges where UNOPS has a present legal or constructive obligation as a result of past events and it is probable that UNOPS will be required to settle that obligation. This includes those cases where the anticipated cost of completing a construction project is likely to exceed the recoverable amount.

35. Other material commitments that do not meet the recognition criteria for liabilities are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNOPS.

Revenue

36. UNOPS recognizes revenue under exchange transactions — including construction projects, implementation projects and service projects — and non-exchange transactions.

37. Where the outcome of a project can be reliably measured, revenue from construction projects (International Public Sector Accounting Standard 11) and other exchange transactions (Standard 9) is recognized by reference to the stage of completion of the project at period-end, as measured by the proportion that costs incurred for work to date bear in relation to the estimated total project costs. Where the outcome of the project cannot be estimated reliably, revenue is recognized to the extent that incurred costs are probable to be recovered.

38. Although UNOPS receives no voluntary or assessed contributions from Member States, occasional non-exchange revenue arises, most often in relation to donations and services in kind (International Public Sector Accounting Standard 23). Non-exchange transactions are measured at fair value and disclosed by way of notes to the financial statements. UNOPS has elected not to recognize services in kind in the statement of financial performance but to disclose the most significant services in the notes to the financial statements.

Expenses

39. UNOPS expenses are accounted for on an accrual basis. Expenses are recognized on the basis of the delivery principle, i.e. the fulfilment of contractual obligation by the supplier when the goods are received or when a service is rendered, or when there is an increase in a liability or a decrease in an asset. Recognition of the expense is therefore not linked to when cash or its equivalent is paid.

Taxation

40. UNOPS enjoys privileged tax exemption. Its assets, income and other property are exempt from all direct taxation. Accordingly, no provision is made for any tax liability.

Net assets/equity

41. Net assets/equity is the standard term used in IPSAS to refer to the residual financial position (assets less liabilities) at period-end, comprising contributed capital, accumulated surpluses and deficits, and reserves. Net assets/equity may be positive or negative.

42. In the absence of any capital contributions, UNOPS net assets are represented by the operational reserves. These comprise the accumulated surplus and the actuarial gains or losses in respect of post-employment benefits.

Segment reporting

43. A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. At UNOPS, segment information is based on the principal activities relating to its five separate geographical areas of operation and its headquarters. This is also the manner in which UNOPS measures its activities and financial information is reported to the Executive Director.

Budget comparison

44. The Executive Board approves the biennial budget estimates and, in particular, the net revenue target calculated on an accrual basis. Budgets may subsequently be amended by the Board or through the exercise of delegated authority by the Executive Director in order to redeploy funds within the approved biennial administrative budget, as well as to increase or reduce funds, provided that the net revenue target for the biennium established by the Board remains unchanged.

45. Both the UNOPS budget and financial statements are prepared on an accrual basis. In the statement of financial performance, expenses are classified according to their nature. In the approved management budget, expenses are classified by cost components or the source of funding to which the expenses have to be charged. As required under International Public Sector Accounting Standard 24, the approved budget is reconciled with the actual amounts presented in the financial statements, quantifying differences in accounting bases and the timing.

Critical accounting estimates and judgements

46. The preparation of financial statements in accordance with IPSAS necessarily includes the use of accounting estimates, management assumptions and judgement. The areas in which estimates, assumptions and judgement are significant to the financial statements include post-employment benefit obligations, provisions and revenue recognition. Actual results could differ from the amounts estimated in the financial statements.

47. Estimates, assumptions and judgements are continually based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. They are subject to continual review.

Post-employment benefits and other long-term employee benefits

48. The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using various assumptions. Actuarial assumptions are established to anticipate future events and are used in calculating post-employment benefits and other long-term employee benefits. Note 13 records the assumptions made during the calculation and a sensitivity analysis of the assumptions.

Provisions

49. Significant judgement is required in the estimation of present obligations that arise from past events, including legal claims and onerous contracts. These judgements are based on prior experience of UNOPS with these issues and are the best current estimate of the liability. Management believes that the total provisions for legal matters are adequate based on currently available information. Additional information is disclosed in notes 20 and 21.

Allowances for doubtful accounts receivable

50. UNOPS has provisions for doubtful receivables, which are detailed in note 11. Such estimates are based on analyses of ageing of customer balances, specific credit circumstances, historical trends and UNOPS experience, taking also into account economic conditions. Management believes that the impairment allowances for these doubtful debts are adequate, based on currently available information. Given that these doubtful debt allowances are based on management estimates, they may be subject to change as better information becomes available.

Revenue recognition

51. Revenue from exchange transactions is measured according to the stage of completion of the contract. This requires an estimate of costs incurred but not yet paid for and total project costs. These estimates are prepared by technically qualified staff and advisers, which reduces, but does not eliminate, uncertainty.

Note 4
Financial risk management

52. UNOPS has instituted prudent risk management policies and procedures in accordance with its financial regulations and rules. It is exposed to a variety of market risks, including currency risk, credit risk and interest rate risk. Its approach to risk management is summarized in the section on internal control (see chap. III.D).

53. UNOPS investment activities are carried out by UNDP under a service-level agreement. Under the terms of the agreement, UNDP applies its investment guidelines and governance framework for the benefit of UNOPS. Investments are registered in the name of UNOPS with marketable securities held by a custodian appointed by UNDP.

54. The principal objectives of the investment guidelines (listed in order of importance) are:

(a) Credit risk: preservation of capital, provided through investing in high-quality fixed-income securities emphasizing the creditworthiness of the issuers;

(b) Liquidity risk: flexibility to meet cash requirements through investments in highly marketable fixed-income securities and through structuring maturities to align with liquidity requirements;

(c) Income risk: maximization of investment income within the foregoing safety and liquidity parameters. Given that assets are not marked to market, the carrying values are not affected by changes in interest rates;

(d) Currency risk: UNOPS mitigates risk by matching the currency of cash on hand and investments to the projected need for currency.

55. The UNDP investment committee, comprising members of the senior management team, meets quarterly to review investment portfolio performance and ensure that investment decisions have complied with the established investment guidelines.

Currency risk

56. UNOPS receives contributions from funding sources and clients in currencies other than the United States dollar. It is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. UNOPS also makes payments in currencies other than the United States dollar. The main foreign currency exposure is with regard to the euro and the Indian rupee.

57. While the currency risk is closely monitored by management, UNOPS uses no hedging instruments to hedge currency risk exposures.

58. The table shows, as at 31 December 2012, the impact on surplus of the year if the major currencies had weakened or strengthened by 10 per cent, which is management's upper estimate of possible movements in the exchange rates against the United States dollar with all other variables held constant.

(Thousands of United States dollars)

	EUR	*INR*	*PEN*	*ARS*	*LKR*	*JPY*	*GTQ*	*AFN*	*ILS*	*CHF*	*GBP*
+10 per cent	(141)	880	683	294	200	(168)	212	(29)	(77)	(30)	(42)
-10 per cent	141	(880)	(683)	(294)	(200)	168	(212)	29	77	30	42

Abbreviations: AFN, Afghan afghani; ARS, Argentine peso; CHF, Swiss franc; EUR, euro; GBP, pound sterling; GTQ, Guatemalan quetzal; ILS, new Israeli sheqel; INR, Indian rupee; JPY, Japanese yen; LKR, Sri Lanka rupee; PEN, Peruvian nuevo sol.

59. The above sensitivities are calculated with reference to a single moment in time and are subject to change owing to a number of factors, including fluctuating trade receivable and trade payable balances and fluctuating cash balances.

60. Given that the sensitivities are limited to year-end financial instrument balances, they do not take account of sales and operating costs, which are highly sensitive to changes in commodity prices and exchange rates. In addition, each of the sensitivities is calculated in isolation, while in reality commodity prices, interest rates and foreign currencies do not move independently.

61. In calculating the sensitivity, it is assumed that all income statement sensitivities also affect equity and that the sensitivity analysis disclosure relates to material cash, receivable and payable balances at year-end.

Credit risk

62. UNOPS has considerable cash reserves because project funding is received in advance of project execution. The resulting cash reserves are invested in an investment portfolio, which is essentially composed of high-quality government bonds with a limited duration. The management of the portfolio is entrusted to UNDP.

63. UNDP investment guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the guidelines include conservative minimum credit criteria of investment grade for all issuers with maturity and counterparty limits by credit rating. The investment guidelines require continuing monitoring of issuer and counterparty credit ratings. Permissible investments are limited to fixed-income instruments of sovereign, supranational, governmental or federal agencies and banks.

64. UNOPS implements projects worldwide and in post-conflict and rural areas. Considering the conditions and areas in which projects are implemented, some banks are not rated by reference to external credit ratings.

Interest rate risk

65. UNOPS is exposed to interest rate risk on its interest-bearing assets. Owing to the relatively short average maturity and hold-to-maturity classification of a significant portion of the UNOPS investment portfolio, an interest sensitivity analysis relating to these investments would not disclose significant variations in value. Held-to-maturity assets are not marked to market, meaning that the carrying values are not affected by changes in interest rates. The UNDP investment committee regularly monitors the rate of return on the investment portfolio compared with the benchmarks specified in the investment guidelines.

66. UNOPS uses no hedging instruments to hedge interest rate risk exposures.

Liquidity risk

67. Investments are made with due consideration to UNOPS cash requirements for operating purposes based on cash flow forecasting. The investment approach includes a consideration for investment maturity structuring that takes into account the timing of the organization's future funding needs. UNOPS maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Note 5
Property, plant and equipment

68. Transitional provisions have been applied in the initial recognition of property, plant and equipment. In accordance with International Public Sector Accounting Standard 17.95, UNOPS will not be recognizing property, plant and equipment in the statement of financial position for a period not exceeding five years from the

date of first adoption of accrual accounting (1 January 2012). Accordingly, property, plant and equipment have been expensed at the date of purchase and have not been recognized as assets.

Note 6
Intangible assets

(Thousands of United States dollars)

	Internally developed software	*Other computer software*	*Intangible assets under construction*	*Total*
Gross carrying amount 1 January 2012				
Additions	147	73	92	312
Disposals	–	–	–	–
Gross carrying amount 31 December 2012	**147**	**73**	**92**	**312**
Accumulated amortization and impairment 1 January 2012				
Amortization	(13)	(14)	–	(27)
Disposals	–	–	–	–
Accumulated amortization and impairment 31 December 2012	**(13)**	**(14)**	**–**	**(27)**
Net carrying amounts 31 December 2012	**134**	**59**	**92**	**285**

69. The gross carrying value of intangible assets amounts to $285,000 at period-end, which includes internally generated computer software, other computer software (acquired) and intangible assets under construction.

70. Internally developed software relates to the development of the UNOPS management workspace project, which creates a unified reporting platform for all business areas (including finance, human resources, procurement, project management, and results and performance management). In 2012, UNOPS had an internal development software project that will continue into 2013. This project, which enhances the functionality of the management workspace, is recognized as an intangible asset under construction.

Note 7
Inventories

71. Inventories consist mainly of bulk raw materials purchased in advance in relation to projects and supplies (such as fuel) on hand. The following table shows the total value of inventories, as presented in the statement of financial position. The carrying amount of inventories is shown by UNOPS operations centre.

Table 7.1

(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Inventories	1 592	841

Table 7.2

(Thousands of United States dollars)

	31 December 2012
Haiti	323
Mine action	732
Sri Lanka	64
South Sudan	321
Democratic Republic of the Congo	152
Total	**1 592**

Note 8
Financial instruments

Table 8.1

(Thousands of United States dollars)

31 December 2012	*Loans and receivables*	*Held-to-maturity investments*	*Total*
Assets according to the statement of financial position			
Investments (note 9)	–	736 247	736 247
Accounts receivable excluding prepayments (note 11)	25 372	–	25 372
Cash and cash equivalents (note 12)	521 334	–	521 334
Total	**546 706**	**736 247**	**1 282 953**

Table 8.2

(Thousands of United States dollars)

	Financial liabilities at amortized cost
Liabilities according to the statement of financial position	
Accounts payables and accruals (note 14)	318 749
Cash held by UNOPS as agent (note 15)	272 341
Total	**591 090**

Note 9
Investments

72. All UNOPS investment functions are outsourced and managed by the UNDP treasury and are measured at amortized cost. All investments are held and amortized in United States dollars.

73. The investment portfolio comprises low-yield investments in accordance with the organization's prudent risk management procedures. The portfolio is composed as follows:

Table 9.1
(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Long-term investments	351 098	215 646
Short-term investments	385 149	383 594
Money market funds and time deposits	339 759	160 143
Total	**1 076 006**	**759 383**

74. The cash and cash equivalents portion includes only money market funds and time deposits managed by the UNDP treasury. It therefore excludes cash at bank and cash on hand.

75. The movements in short-term and long-term investments for 2012 are as follows:

Table 9.2
(Thousands of United States dollars)

	31 December 2012
Opening balance 1 January 2012	**318 749**
Additions (purchases of investments)	795 791
Disposals (proceeds from maturity of investments)	(649 766)
Recognition of amortized costs	(9 018)
Closing balance 31 December 2012	**736 247**
Current portion (short-term investments)	385 149

76. Total investments of $795.8 million were purchased throughout 2012, whereas $649.8 million reached maturity at the set maturity dates. The derecognition of the amortized cost, which is the difference between the nominal and the effective interest rate, amounts to $9 million.

77. Both long-term and short-term investments are held-to-maturity instruments.

78. Accrued interest of $3.8 million has been included in the statement of financial position as "other accounts receivable" (see note 11 for further details).

Short-term investments

79. Short-term investments are those investments with final maturities at purchase between 91 and 365 days. They consist of money market funds and bonds maturing within one year of the reporting date.

Table 9.3

(Thousands of United States dollars)

	31 December 2012
Money market instruments	149 897
Bonds	235 252
Total short-term investments	**385 149**

Long-term investments

80. Long-term investments comprise bonds that mature beyond one year. Although these portfolios are treated as long term, they may, at any point, contain a small percentage of both short-term items and cash funds, which are considered timing differences in a long-term portfolio.

Table 9.4

(Thousands of United States dollars)

	31 December 2012
Bonds	351 098

81. The investment portfolio of UNOPS consists of high-quality debt instruments (bonds, discount instruments, treasury notes, certificates of deposit, money market funds, etc.). In the table, the entire portfolio is presented by credit rating distribution.

Table 9.5

(Thousands of United States dollars)

Bond/notes and discount instruments	*31 December 2012*
AAA	543 710
AA+	96 646
AA-	57 197
A	38 694
Current portion (short-term investments)	**736 247**

Note 10
Fair value disclosure investments

(Thousands of United States dollars)

	31 December 2012		
	Fair value	*Value at amortized cost*	*Difference*
Money market instruments — certificates of deposit, treasury bills	149 899	149 897	2
Bonds	590 436	586 350	4 086
Total	**740 335**	**736 247**	**4 088**

Note 11
Accounts receivable

82. The accounts receivable of UNOPS are divided into the following categories:

(a) Project accounts receivable: a project receivable is recognized in connection with projects that have incurred expenditure and are awaiting further funding from partners and from the receivables originating from the UNWebBuy online procurement tool;

(b) Prepayments: payments made in advance of the receipt of goods or services from any vendor;

(c) Other accounts receivable: this category includes the staff receivables, accrued interest income on investments and other and miscellaneous receivables.

83. An overview of these categories can be found in the table.

Table 11.1

(Thousands of United States dollars)

	Value at amortized cost	*Difference*
Project accounts receivable (gross)	32 347	38 944
Less: bad debt allowance	(12 546)	(12 038)
Project accounts receivable (net)	**19 801**	**26 906**
Other accounts receivable (gross)	5 688	5 984
Less: bad debt allowance	(117)	(49)
Other accounts receivable (net)	5 571	5 935
Total accounts receivable (net) excluding prepayments	**25 372**	**32 841**
Prepayments	14 100	11 910
Total accounts receivable (net) including prepayments	**39 472**	**44 751**

84. Given that the fair value of the current receivables approximates their carrying amount and the impact of discounting is not significant, no fair value disclosure has been added.

85. As at 31 December 2012, receivables of $12.66 million had been impaired and provided for.

86. As at 31 December 2012, receivables of $10.97 million were past due but had not been impaired because there was no recent history of default regarding them. The ageing of these receivables exceeds three months.

Table 11.2

(Thousands of United States dollars)

	Current 0-3 months	*Overdue 3-6 months*	*Overdue 6-12 months*	*Overdue > 12 months*	*Total*
Accounts receivable	14 405	7 766	1 763	1 438	25 372

Project accounts receivable

87. The project accounts receivable are composed of:

Table 11.3

(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Project implementation-related receivables	19 594	26 018
Accounts receivable from United Nations agencies	207	888
Total project accounts receivable	**19 801**	**26 906**

88. Project implementation-related receivables arise in connection with projects that have incurred expenditure and are awaiting further funding from partners and from the receivables originating from the UNWebBuy online procurement tool. Also included in project-related receivables are amounts receivable from the Global Fund to Fight AIDS, Tuberculosis and Malaria. The nature of project agreements typically requires UNOPS to perform services before invoicing the client and receiving cash/payment.

89. The accounts receivable from United Nations agencies represent amounts due from the United Nations Population Fund (UNFPA), the United Nations Capital Development Fund and the United Nations Entity for Gender Equality and the Empowerment of Women. They relate mainly to project expenditure incurred by UNOPS when implementing projects on behalf of those agencies.

90. Of the balance in project receivables of $19.6 million, $7 million relates to cash advances due from customers for construction contracts for the year ended 31 December 2012, as detailed in note 17.

Other accounts receivable

91. The other accounts receivable are composed of:

Table 11.4
(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Staff receivables	1 012	940
Accrued interest income	3 759	4 636
Miscellaneous receivables	800	359
Total other accounts receivable	**5 571**	**5 935**

92. The staff receivables relate to salary advances, education grants, rental subsidies and other entitlements.

93. The accrued interest income is composed of interest accruals on investments. Of this amount, a portion has been allocated to project cash advances received and the balance has been recognized in the statement of financial performance under "finance income" . Note 19 provides further details.

Prepayments

Table 11.5
(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Prepayments	14 100	11 910

94. Prepayments relate to payments made in advance of the receipt of goods or services from any vendor, whether a supplier or an individual contract holder.

Bad debt allowance

95. The movement in bad debt allowance is as follows:

Table 11.6
(Thousands of United States dollars)

	Bad debt allowance
Opening balance 1 January 2012	
Relating to projects	12 038
Other accounts receivable	49
Opening balance	**12 087**
Net increase in 2012 provision for receivables impairment	
Increase in 2012	1 666
Receivables written off during the year as uncollectible	(401)

	Bad debt allowance
Unused amounts reversed	(689)
Net increase	**576**
Closing balance 31 December 2012	
Relating to projects	12 546
Other accounts receivable	117
Closing balance	**12 663**

96. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

Note 12
Cash and cash equivalents

97. The cash and cash equivalents of UNOPS are composed of cash on hand, bank account balances, money market funds and time deposits.

Table 12.1
(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Cash at bank and on hand	182 391	212 060
Impaired cash balances	(816)	(1 210)
Money market funds and time deposits	339 759	160 143
Total cash and cash equivalents	**521 334**	**370 993**

98. Cash at bank includes project funds received from clients for the implementation of project activities. Cash advances received from clients for project activities and other UNOPS cash balances are co-mingled and not held in separate bank accounts.

99. Cash on hand is cash that is held in field offices to meet financial needs at field locations.

100. Money market funds and time deposits are investments with an original maturity of less than 90 days.

101. In 2009, UNOPS became aware of financial difficulties at the Nile Commercial Bank in Southern Sudan. Consequently, UNOPS has been unable to transfer its remaining balance from its account there. UNOPS has made continuous efforts in the past years and the current year to recover the funds and will continue to do so in 2013. The cash and cash equivalents balance disclosed is shown net of adjustments relating to the doubtful balance of $0.8 million at the Nile Commercial Bank.

102. Cash at bank (excluding cash on hand) is denominated in the following currencies:

Table 12.2

(Thousands of United States dollars)

Cash at bank	*31 December 2012*
Currency	*Bank balance*
United States dollar	116 168
Euro	31 996
Indian rupee	16 112
Peruvian nuevo sol	6 753
Argentine peso	3 395
Sri Lanka rupee	2 571
Japanese yen	2 083
Other currencies	3 070
Total cash at bank	**182 148**
Cash on hand	**243**
Total	**182 391**

103. The credit quality of the cash at bank (excluding cash on hand), by reference to external credit ratings, is summarized in the table.

Table 12.3

(Thousands of United States dollars)

Cash at bank	*31 December 2012*
AAA	2 580
AA+	3 395
AA-	100
A+	673
A	115 680
A-	(79)
BBB+	6 862
BBB	17 059
BBB-	51
BB+	825
BB-	(26)
B	43
Unrated	34 985
Total cash at bank	**182 148**
Cash on hand	**243**
Total	**182 391**

104. UNOPS implements projects worldwide and in post-conflict and rural areas. Considering the conditions and areas in which projects are implemented, some banks are not rated by reference to external credit ratings.

105. The credit quality of money market funds and time deposits is as described in the table.

Table 12.4

(Thousands of United States dollars)

Money market funds and time deposits	*31 December 2012*
AAA	139 767
AA+	24 992
AA-	125 000
A+	50 000
Total	**339 759**

Note 13
Employee benefits

106. The employee benefits liabilities of UNOPS are composed of:

(a) Short-term employee benefits: accrued annual leave, current portion of home leave;

(b) Long-term employee benefits: non-current portion of home leave;

(c) Post-employment benefits: all benefits relating to after-service health insurance and repatriation grants.

Table 13.1

(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Short-term employee benefits	14 974	13 365
Long-term employee benefits	698	667
Post-employment benefits	39 192	52 743
Total employee benefits liabilities	**54 864**	**66 775**
Current portion	14 974	13 365
Non-current portion	39 890	53 410

Short-term employee benefits

107. Short-term employee benefits are composed of:

Table 13.2
(Thousands of United States dollars)

	31 December 2012
Annual leave entitlements	13 469
Home leave entitlements (current portion)	1 451
Assignment grant on first appointment or reassignment	54
Total employee benefits liabilities	**14 974**

108. Home leave allows eligible internationally recruited staff members periodically to visit their home country to renew and strengthen cultural and family ties.

Long-term employee benefits

109. Long-term employee benefits consist of the non-current portion of the home leave entitlement. Rights vested that can be used in the next 12 months are presented as short-term employee benefits, while rights to be used beyond the 12-month period are presented as long-term employee benefits.

Post-employment benefits

110. The post-employment benefit liabilities are composed of:

Table 13.3
(Thousands of United States dollars)

	31 December 2012
After-service health insurance	26 083
Repatriation grants	13 109
Total post-employment benefits	**39 192**

111. Post-employment benefits consist of after-service health insurance, repatriation grants and pension plans. After-service health insurance is a plan that allows eligible retirees and their eligible family members to participate in the full medical insurance plan. A repatriation grant is an entitlement payable to Professional staff on separation together with related costs in travel and shipment of household effects.

112. These benefits are determined by professional actuaries. As at 31 December 2012, total employee benefits liabilities amounted to $39.2 million. These employee benefits are established in accordance with the Staff Regulations and Rules of the United Nations for staff members in the Professional and General Service categories.

113. UNOPS is also a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide

retirement, death, disability and related benefits to employees. The Fund is a multi-employer-funded defined benefit plan.

114. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan.

115. UNOPS and the Fund, in line with the other organizations participating in the Fund, are not in a position to identify the UNOPS proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Accordingly, UNOPS has treated this plan as if it were a defined contribution plan in line with the requirements of International Public Sector Accounting Standard 25. UNOPS contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

After-service health insurance

116. The year-end liabilities for after-service health insurance are derived from the actuarial valuation conducted at year-end 2012.

117. Upon end-of-service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided that they have met certain eligibility requirements. These requirements include 10 years' participation in a United Nations health plan for those who were recruited after 1 July 2007 and five years for those who were recruited before that date.

118. The major assumptions used by the actuary to determine the liabilities for after-service health insurance as at 31 December 2012 were a discount rate of 4.0 per cent, an inflation rate of 2.5 per cent, health-care escalation rates being dependent on the medical plan to which the employee is affiliated starting at 5.0 per cent up to 8.0 per cent in 2012-2013, grading down to 4.5 per cent in 2027 and later years; age-related morbidity; and retirement and mortality assumptions consistent with those used by the Fund in making its own actuarial valuation of pension benefits. Furthermore, UNOPS-specific withdrawal rates are applied.

119. The expected contributions from active staff in 2013 are estimated at $0.2 million.

120. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2012, net of contributions from plan participants, was estimated by actuaries at $26.1 million.

121. On the basis of the assumptions above, it is estimated that the net present value of the liability would increase by 22 per cent if medical cost trend were increased by 1 per cent, all other assumptions held constant. Similarly, it is estimated that the accrued liability would increase by 20 per cent and decrease by 19 per cent if the discount rate were decreased and increased by 1 per cent respectively, all other assumptions held constant.

Table 13.4

(Thousands of United States dollars)

	Defined benefit obligations	*Service cost*	*Interest cost*
One percentage point increase	5 808	519	254
One percentage point decrease	(4 543)	(395)	(197)

Repatriation grants

122. The year-end liabilities for repatriation grants are derived from the actuarial valuation conducted in 2013, adjusted for change in discount rate.

123. Upon end-of-service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant that is based on length of service, and travel and removal expenses. These benefits are collectively referred to as repatriation benefits.

124. The major assumptions used by the actuary were a discount rate of 4.0 per cent, annual salary increases based on salary scales, grade and step, and travel cost increases of 2.5 per cent per annum. Furthermore, assumptions relating to retirement, withdrawal and mortality are made consistent with those used by the United Nations Joint Staff Pension Fund, except for withdrawal, which is based on behaviour of UNOPS employees.

125. On the basis outlined above, the net present value of the UNOPS accrued liability as at 31 December 2012 was estimated by actuaries at $13.1 million.

126. A sensitivity analysis has been performed on the assumptions used in the actuarial valuation. An increase of the discount rate by 1 per cent, with all other assumptions held constant, would result in a decrease of the net present value of the liability by 3 per cent. A decrease of the discount rate by 1 per cent, with all other assumptions held constant, would result in an increase of the net present value of the liability by 3 per cent.

Accounting for post-employment benefits

127. The movement in the defined benefit obligation over the year is as follows:

Table 13.5

(Thousands of United States dollars)

	Fair value	*Value at amortized cost*	*Difference*
Liability as at 1 January 2012	**12 843**	**39 900**	**52 743**
Current service cost	1 348	4 983	6 331
Interest cost	549	1 791	2 340
Benefits paid	(664)	(159)	(823)
Actuarial losses/(gains)	(967)	(20 432)	(21 399)
Liability as at 31 December 2012	**13 109**	**26 083**	**39 192**

128. The amounts recognized in the statement of financial performance are as follows:

Table 13.6

(Thousands of United States dollars)

	Repatriation	*After-service health insurance*	*Total*
Current service cost	1 348	4 983	6 331
Interest cost	549	1 791	2 340
Expense as at 31 December 2012	**1 897**	**6 774**	**8 671**

129. The total expense has been included under "salaries and employee benefits" in the statement of financial performance. The actuarial gains of $21.4 million have been recognized under "reserves" in the statement of financial position.

130. The principal actuarial assumptions were as follows:

Table 13.7

	Repatriation	*After-service health insurance*
Discount rate	4.0 per cent	4.0 per cent
Future salary increases (on top of inflation)	Salary scale	Salary scale
Inflation rate	2.5 per cent	2.5 per cent
Mortality rate	United Nations scales	United Nations scales
Turnover rate	UNOPS scales	UNOPS scales

United Nations Joint Staff Pension Fund

131. As specified in article 3 (b) of the regulations of the Fund, membership in the Fund is to be open to the specialized agencies and to any other international intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

132. The Fund's regulations state that the Pension Board is to have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities.

133. The UNOPS financial obligation to the Fund consists of its mandated contribution at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial

sufficiency of the Fund as at the valuation date. Each member organization is to contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

134. The latest actuarial valuation was performed as at 31 December 2011. It revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2011 was 25.57 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The actuarial deficit was primarily attributable to the lower-than-expected investment experience in recent years.

135. As at 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

136. After assessing the actuarial sufficiency of the Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2011, for deficiency payments under article 26 of the regulations of the Fund, given that the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of writing of the present report, the General Assembly had not invoked the provision of article 26, meaning that, at present, there is no liability on the part of UNOPS to make extraordinary payments to the Fund.

137. The pensionable remuneration will be reviewed at the time of the next actuarial valuation (31 December 2013).

138. In July 2012, the Pension Board noted, in the report on its fifty-ninth session to the General Assembly (A/67/9), that an increase in the normal age of retirement for new participants of the Fund to 65 was expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent. In December 2012, by its resolution 67/240, the Assembly authorized the Board to increase the normal retirement age to 65 for new participants in the Fund, with effect not later than from 1 January 2014, subject to a decision of the Assembly on a corresponding increase in the mandatory age of separation.

139. In 2012, UNOPS contributions paid to the Fund amounted to $14.8 million. Except for the effects of inflation, there are no indicators of a material change in expected contributions for 2013.

140. Each year, the Board of Auditors carries out an audit of the Fund and reports to the Pension Board thereon. The Fund publishes quarterly reports on its investments and these can be viewed on its website at www.unjspf.org.

Note 14
Accounts payable and accruals

Table 14.1

(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Accounts payable	289 207	119 940
Accruals	29 542	47 378
Total	**318 749**	**167 318**

Accounts payable

141. Balances of accounts payable at the end of 2012 were as follows:

Table 14.2

(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Accounts payable to other United Nations agencies	262 380	110 216
Accounts payable	26 744	9 597
Staff payables	83	127
Total accounts payable	**289 207**	**119 940**

142. The accounts payable to other United Nations agencies for 2012 amounting to $262.4 million represent amounts due to UNDP only. These payables arose because UNOPS made use of UNDP banking services to disburse payments on its behalf and for the excess of cash received over the total of project costs incurred and fee revenue recognized on projects implemented for UNDP at the end of 2012. The outstanding balance to UNDP is made up as follows:

Table 14.3

(Thousands of United States dollars)

		31 December 2012
Receivable from UNDP		
Cumulative project expenses and fees due to UNOPS		980 519
Less bad debt allowance:		(20 140)
Receivable from UNDP on project expenditure incurred before 2007	(17 241)	
Receivable from UNDP on project expenditure incurred after 2007	(2 899)	
Net receivable due from UNDP on project implementation activities		**960 379**

	31 December 2012
Payable to UNDP	
Cumulative payable by UNOPS to UNDP to disburse payments on UNOPS behalf	(1 217 256)
Payable to UNDP for services	(5 503)
Gross accounts payable to UNDP	**(1 222 759)**
Net accounts payable to UNDP (less receivable from UNDP)	**(262 380)**

143. A doubtful debtors allowance amounting to $20.1 million has been recognized for expenditure rejected by UNDP in prior years. Included is an amount of $17.2 million that is under negotiation. UNOPS and UNDP have, under the broad oversight of the Office of Legal Affairs, agreed in principle to a mechanism whereby any respective responsibilities with regard to such balance will be determined by a panel of independent experts, who will do so in the form of recommendations to the management of the two organizations. UNOPS and UNDP have agreed to carry out such recommendations promptly. Terms of reference for this mechanism have been finalized and the outcome is expected to be agreed upon in the second half of 2013.

144. Other payables relate to transactions where invoices have been received and approved for payment but not yet paid.

145. Payables to staff comprise separation amounts pending payment.

Accruals

146. The accrued charges amounting to $29.5 million are financial liabilities in respect of goods or services that have been received by or provided to UNOPS during the reporting period but not yet invoiced or paid. The accrued charges relate mainly to goods or services that have been received by or provided to UNOPS for the implementation of client projects.

Note 15
Project cash advances received

147. The project cash advances received represent deferred revenue that is the excess of cash received over the total of project revenue recognized on projects and of cash held by UNOPS for projects where UNOPS serves as a disbursement authority.

(Thousands of United States dollars)

	31 December 2012	*1 January 2012 (restated balance)*
Deferred revenue	589 664	541 327
Cash held by UNOPS as agent	272 341	206 448
Total	**862 005**	**747 775**

148. Of the balance in deferred revenue of $589.7 million, $249.8 million relates to cash advances on construction contracts for the year ended 31 December 2012, as detailed in note 17.

Note 16
Operational reserves

149. The operational reserves are as follows:

(Thousands of United States dollars)

	31 December 2012
Opening balance 1 January 2012	33 357
Surplus for the year	8 176
Reserve balance	**41 533**
Actuarial gains/(losses)	21 399
Closing reserves balance 31 December 2012	**62 932**

150. The formula for calculating operational reserve requirements was originally approved by the Executive Board in 2003 and stipulated that the operational reserve should be equivalent to 4 per cent of the rolling average of the combined administrative and project expenditure for the past three years of operations. Based on this formula, for the year ended 31 December 2012, the operational reserves requirement was $46.8 million. The actual operational reserves amounted to $62.9 million.

151. The main purpose of the operational reserves is to provide for temporary deficits, fluctuations or shortfalls in resources, uneven cash flows, unplanned increases in expenses and costs or any other contingencies, and to ensure continuity in the implementation of the projects undertaken by UNOPS.

Note 17
Revenue and expenses

Exchange revenue

152. The exchange revenue of UNOPS is composed of $680.1 million in revenue from project activities and $3 million in miscellaneous revenue.

153. The revenue and expenses from UNOPS project activities are as follows:

Table 17.1

(Thousands of United States dollars)

	31 December 2012
Construction contracts (infrastructure)	253 758
Procurement	17 173
Fund management	55 379
Human resources administration	35 834
Project management	317 982
Total project-related revenue	**680 126**

	31 December 2012
Less: project expenses	
Construction contracts	238 649
Procurement	9 315
Fund management	43 300
Human resources	29 147
Project management	294 590
Total project-related expenses	**615 001**
Net revenue from project activities	**65 125**

154. In 2012, UNOPS revenue was reported according to the categories in the table. For operational reasons and as included in the annual report, UNOPS analyses its revenue according to the three core service categories of project management, infrastructure and procurement. These categories are detailed in note 1.

Construction contracts

155. The amount of revenue and expenses relating to the construction contracts recognized in the statement of financial performance is as follows:

Table 17.2
(Thousands of United States dollars)

	Cumulative to date	*Recognized in prior years*	*Recognized in the current year*
Revenue	1 198 303	944 545	253 758
Expenses	(1 133 917)	(895 268)	(238 649)
Surplus	**64 386**	**49 277**	**15 109**

156. Amounts due to and from customers for construction contract works are as follows:

Table 17.3
(Thousands of United States dollars)

	Projects with net deferred revenue balance	*Projects with net balance project receivable*
Cash advances received including accrued interest	(959 170)	(259 779)
Revenue recognized over the life of the contract	709 358	266 729
Amounts due (to)/from customers included in deferred revenue and project receivables, respectively	**(249 812)**	**6 950**

157. Cash advances received comprise cash received over the life of both construction contracts and contracts that contain construction and an agency service element (such as procurement services) where the cash advances were not specifically designated for use on the agency service.

Contractual services

158. Contractual services of $193.3 million relate to expenses incurred for a range of UNOPS activities, some of which include payments to:

(a) Subcontractors for implementation projects and construction projects;

(b) Vendors for feasibility studies and research on projects;

(c) Engineers for implementation and construction projects;

(d) Vendors for security charges;

(e) Service contract holders that are not under UNOPS supervision.

Note 18
Employee benefits expenses

(Thousands of United States dollars)

	31 December 2012
Salaries	73 994
After-service health insurance (note 13)	6 774
Annual leave	1 524
Home leave	1 161
Defined benefit plan (note 13)	14 796
Repatriation grant (note 13)	1 897
Other short-term employee benefit expenses	27 901
Expenses relating to staff	**128 047**
Other personnel expenses	117 043
Total employee benefit expenses	**245 090**

159. Other personnel expenses relate to the remuneration paid to individual UNOPS contractors for salaries and accrued annual leave, amounting to $105.3 million, and remuneration paid to service contract holders, amounting to $11.7 million.

Note 19
Finance income and costs

(Thousands of United States dollars)

	31 December 2012
Finance income	
Total finance income received on investments	13 709
Less recognition of amortized costs (note 9)	(9 018)
Total finance income attributable to UNOPS on investments	**4 691**
Less finance income allocated to projects	(3 869)
Net finance income retained by UNOPS	**822**
Finance income on UNOPS bank balances	891
Total finance income	**1 713**
Net exchange losses	(82)
Net finance income	**1 631**

160. The exchange losses are due to revaluation of bank balances, assets and liabilities in currencies other than the United States dollar at the end of the period.

Note 20
Provisions for other liabilities and charges

(Thousands of United States dollars)

Description	*1 January 2012*	*Additional provisions*	*Unused amounts reversed*	*31 December 2012*
Claims	600		(270)	330
Leasehold restoration provisions		50		50
Total	**600**	**50**	**(270)**	**380**

161. The provision for claims relates to a claim brought against UNOPS by another United Nations agency regarding the reimbursement of expenses incurred from 2001 to 2004.

162. Leasehold restoration provisions reflect an estimate of requirements to return the property to the lessor at the end of the lease term in a specified condition. This concerns various lease agreements where UNOPS has the obligation to remove installed assets.

Note 21
Contingencies

Contingent liabilities

163. On the basis of complainants' claims, the contingent liabilities at year-end amounted to $26.35 million, which represents management's best estimate of the upper limit of the possible financial exposure inclusive of costs and disbursements in relation to pending litigations and claims.

(Thousands of United States dollars)

	31 December 2012
Project-related claims from contractors	25 855
Staff-related claims	493
Total contingent liabilities	**26 348**

164. No provision in relation to these claims has been recognized in the financial statements, given that legal advice indicates that it is not probable that a significant cash outflow will arise. Other claims for which provisions have been made are reflected in note 20.

165. The project-related claims from contractors include a contingent liability estimated at $23 million, which concerns a two-phase arbitration agreement between UNOPS and a contractor in relation to a contract entered into by UNOPS. After taking appropriate legal advice, provision for this case will not be made until resolution of the first phase of the arbitration proceedings, which aims at determining whether the contractor is entitled to bring a claim against UNOPS. Resolution of that phase is not expected to conclude within the next 18 to 24 months.

Contingent assets

166. Following costs incurred by UNOPS in connection with the implementation of a project for a client, UNOPS has been negotiating a possible amicable resolution of this matter with a third party. It is the General Counsel's opinion that UNOPS might recover a total amount of $0.6 million. UNOPS has recognized no gain in its financial statements at 31 December 2012 in respect of this case. Resolution is anticipated by the end of the second quarter of 2013.

Note 22
Commitments

167. UNOPS leases office premises in field offices under non-cancellable and cancellable operating lease agreements. When cancellable, UNOPS is required to give notice of between one and three months for the termination of the lease agreement. The lease terms are between 1 and 15 years. Some of these agreements contain renewal clauses that enable UNOPS to extend the terms of the leases at the end of the original lease terms and escalation clauses that may increase annual rent payments based on increases in the relevant market price indexes in the countries in which the field offices are located.

168. The operating expenses include lease payments for an amount of $8.5 million, recognized as operating lease expenses during the year in the statement of financial performance under "operational costs".

169. The future minimum lease payments include payments for such rented premises that would be required until the earliest possible termination dates under the respective agreements. The total of future minimum lease payments under non-cancellable operating leases is as follows:

Table 22.1

(Thousands of United States dollars)

	31 December 2012
Within one year	2 534
Later than one year and not later than five years	1 911
Later than five years	27
Total operating lease commitments	**4 472**

170. UNOPS subleases office premises under cancellable operating lease agreements, generally to other United Nations agencies. In most cases, the lessee is required to give notice of 30 days for the termination of the sublease agreement.

171. Sublease payments were received for an amount of $2.9 million in 2012 and recognized as operating lease revenue during the year in the statement of financial performance. They are included under "miscellaneous revenue". Sublease rental income relating to the Chrysler Building leased by UNOPS in New York amounts to $1.5 million.

172. As at 31 December 2012, the total future minimum lease payments under sublease agreements that UNOPS expects to receive on sublease agreements that cannot be cancelled is only $12,000, owing mainly to the 30-day notice period and the 2012 end date of most significant sublease agreements.

173. UNOPS commitments include purchase orders and service contracts contracted but not delivered as at year-end. A list of these commitments is given below.

Table 22.2

(Thousands of United States dollars)

	31 December 2012
Management-related commitments	394
Project-related commitments	126 244
Total	**126 638**

Note 23
Reconciliation of budget comparison statement

Table 23.1

(Thousands of United States dollars)

Classification in DP/OPS/2011/5	*Actual amounts on comparable basis*	*Basis difference (exclude intangible assets capitalized)*	*Entity difference (include projects)*	*Reclassification*	*Amounts in IPSAS financial statements*	*Classification in statement of financial performance*
Total revenue						
Revenue	**65 950**	–	**617 210**	–	**683 160**	
Payments						
Posts	21 876	–	106 171	–	128 047	Salaries and employee benefits
Common staff costs	14 877	–	(14 877)	–	–	Salaries and employee benefits
Travel	2 632	–	21 808	–	24 440	Travel
Consultants	10 787	–	299 518	–	310 305	Other personnel expenses and contractual services
Operating expenses	6 811	–	147 836	–	154 647	Operational costs
Furniture and equipment	1 239	(285)	53 938	–	54 892	Supplies and consumables
Reimbursements and other	90	–	4 194	–	4 284	Other and amortization of intangible assets
Provisions	**2 423**	–	–	**(2 423)**	–	
Total expenses						
Total expenses for the period	**60 735**	**(285)**	**618 588**	**(2 423)**	**676 615**	
Net finance income/cost	1 450	–	181	–	1 631	
Surplus for the period	**6 665**	**285**	**(1 197)**	**2 423**	**8 176**	

174. The budget scope of UNOPS is restricted to the management budget, including the net surplus earned on projects. It does not include the revenue and expenses incurred on projects, which represent an entity difference in the reconciliation between the IPSAS statement of financial performance and the actual amounts on a comparable basis to the budget.

175. The UNOPS budget and accounts are prepared on the same basis, except for acquisition of intangible assets. The statement of financial position, the statement of

financial performance, the statement of changes in net assets and the statement of cash flows are prepared on a full accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts is prepared on an accrual basis except for acquisition of intangible assets. The approved budget covers the biennium 2012-2013. The annual budget for 2012 was included in the statement of comparison of budget and actual amounts.

176. The financial rules and regulations specify that the Executive Director has the authority to redeploy resources within the approved management budget and to increase or reduce the total approved management budget allotment, provided that the net revenue target established by the Executive Board for the budget period remains unchanged. Consequently, there are some line item differences between the original and final budgets, whereas the budgeted deficit of the original budget differs only slightly from that of the final budget.

177. As can be seen from the comparison between actual amounts on a comparable basis and the revised budget, UNOPS total expenditure was below budget because UNOPS was conservative in setting a budget for a $6 million loss owing partly to the implications of the IPSAS conversion on 1 January 2012. Management implemented cost-cutting measures in early 2012 to maintain profitability under IPSAS, which was achieved.

Reconciliation of actual amounts from budgetary basis to financial statement basis

178. As required under International Public Sector Accounting Standard 24, the actual amounts presented on a comparable basis to the budget are, where the financial statements and the budget are not prepared on a comparable basis, to be reconciled with the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for the presentation of financial statements and the budget.

179. According to the statement of comparison of budget and actual amounts, the actual revenue from management fees for 2012 was 12 per cent higher than the final budgeted amount of $52.1 million because management was unable to reliably estimate revenue for budgeting purposes owing to the implications of the IPSAS conversion on 1 January 2012. Total management expenditure was 18 per cent lower when compared with the budgeted amount of $73.8 million. During the first half of 2012, UNOPS experienced a substantial decline in business in one of its regions. Management compensated for that loss of business by implementing cost-cutting measures to maintain profitability.

180. Basis differences occur when the approved budget is prepared on a basis other than the accounting basis.

181. Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNOPS for purposes of comparison of budget and actual amounts.

182. Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

183. Presentation differences are due to differences in the format and classification schemes adopted for the presentation of the statement of cash flows and the statement of comparison of budget and actual amounts.

184. Reconciliation between the actual amounts on a comparable basis and the actual amounts in the statement of cash flows for the period ended 31 December 2012 is presented below.

Table 23.2

(Thousands of United States dollars)

	Operating	*Investing*	*Total*
Actual amount on comparable basis as presented in the budget and actual comparative statement	6 665	–	6 665
Basis differences (capitalization of intangible assets)	312	(285)	27
Entity difference (project income)	1 226	–	1 226
Changes in working capital	279 457	–	279 457
Movement in investments and interest received	(740)	(136 212)	(136 952)
Subtotal	**286 920**	**(136 497)**	**150 423**
Net foreign exchange losses	–	–	(82)
Actual amount in the statement of cash flows	**286 920**	**(136 497)**	**150 341**

Note 24
Segment reporting

185. Management has determined its reporting segments based on statements of the budget reporting as presented to the Executive Director and the Deputy Executive Director.

186. The allocation of the total assets and liabilities of UNOPS segments is not regularly reviewed by management. The accounting system is not adapted so as to generate segment information on assets and liabilities efficiently and reliably. UNOPS believes that this information is not meaningful to the users of these financial statements. Accordingly, it is not presented.

187. Segment revenue and expenses are those directly attributable to the segment or that can reasonably be allocated to the segment.

188. The business is considered from a geographic perspective, whereby performance in the Africa region, the Asia-Pacific region, the Europe and Middle East region, the Latin America and Caribbean region, the North America region and headquarters is considered.

189. The activities of the North America segment are reported to senior management internally, on a regional basis, although the activities are spread across various continents. Owing to this reporting structure, it is considered a geographical segment.

190. UNOPS headquarters is in Denmark. The total amounts of its segment revenue and expenses in Denmark and other regions are summarized as follows:

(Thousands of United States dollars)

	Africa region	*Asia-Pacific region*	*Europe and Middle East region*	*Latin America and Caribbean region*	*North America region*	*Headquarters*	*Total*
Revenue							
Revenue from project activities	141 025	43 228	153 874	124 958	216 921	120	680 126
Miscellaneous revenue	–	–	1 355	–	1 545	134	3 034
Total revenue	**141 025**	**43 228**	**155 229**	**124 958**	**218 466**	**254**	**683 160**
Expenses							
Contractual services	17 548	5 528	28 840	46 158	95 174	14	193 262
Operational costs	56 233	6 329	34 188	36 493	18 777	2 627	154 647
Salaries and employee benefits	13 793	11 907	23 976	7 237	55 584	15 550	128 047
Other personnel expenses	24 918	10 060	37 180	23 346	18 438	3 101	117 043
Office supplies and consumables	15 002	5 479	12 507	8 407	13 005	492	54 892
Travel	6 183	2 074	7 934	1 303	5 854	1 092	24 440
Other expenses	386	195	(19)	123	917	2 655	4 257
Amortization of intangible assets	–	–	6	2	4	15	27
Total expenses	**134 063**	**41 572**	**144 612**	**123 069**	**207 753**	**25 546**	**676 615**
Finance income	–	–	–	–	–	1 713	1 713
Net foreign exchange gains/(losses)	–	–	–	–	–	(82)	(82)
Net finance income	–	–	–	–	–	**1 631**	**1 631**
Surplus for the period	**6 962**	**1 656**	**10 617**	**1 889**	**10 713**	**(23 661)**	**8 176**

Note 25
Related parties

Related parties

191. UNOPS is governed by an executive board, mandated by the General Assembly, which is responsible for overseeing the work of UNOPS, UNDP and UNFPA. The Executive Board is a related party because it exercises significant influence over UNOPS as its governing body.

192. UNOPS maintains a working relationship with the Executive Board and reimburses part of the travel costs, subsistence allowances and office expenses incurred by members of the Board in discharging their official duties, in addition to a share of the cost of the secretariat. This totalled some $0.2 million for 2012. Designated members of the Board are elected each year by the Economic and Social Council in accordance with the rules of procedure on membership. Board members are not considered to be key management personnel of UNOPS as defined under IPSAS.

193. UNOPS considers UNDP and UNFPA to be related parties, given that all three organizations are subject to common control by the Executive Board. UNOPS has a range of working relationships with UNDP and UNFPA. All the transactions

between UNOPS and the other two organizations are conducted at arm's length. The inter-agency transactions were consistent with normal operating relationships between the organizations and were undertaken on terms and conditions that are normal for such transactions.

Key management personnel

194. The table provides information on the aggregate remuneration of the executive management personnel.

(Thousands of United States dollars)

	31 December 2012
Number of individuals	2
Aggregate remuneration	
Base compensation and post adjustments	448
Other entitlements	56
Post-employment benefits	125
Total remuneration	**629**
Outstanding advances against entitlements	4

195. For the purpose of this disclosure, the Executive Director and the Deputy Executive Director are considered the executive management personnel because they have the overall authority and responsibility to plan, lead, direct and control the activities of the organization.

196. The aggregate remuneration of the executive management personnel is calculated on a full-time equivalent basis and includes net salaries, post adjustment, entitlements such as representation allowance, rental subsidy, relocation grant (if any) and the cost of the pension, after-service health insurance and repatriation grant, in accordance with the Staff Regulations and Rules of the United Nations.

197. In 2012, there were no known instances of the executive management personnel facing conflicts of interest that could potentially influence decision-making, either stemming from the ordinary course of business or with regard to business relationships with family members, other related individuals or vendors.

Note 26
Services in kind

198. Services in kind for the year amounted to $2.5 million, comprising the estimated market rental value of office space provided by the Government of Denmark, amounting to $2.1 million per annum, and the estimated market rental value of office spaces provided by local governments to international waters cluster projects, totalling $0.4 million.

Note 27

Events after the reporting date

199. The financial statements were approved for issue on the date on which the Board of Auditors signed the audit opinion. None other than UNOPS has the authority to amend these financial statements.

200. As at the date of signature of the UNOPS financial statements and the related notes for the year ended 31 December 2012, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements were authorized for issue that would have affected those statements.

Note 28

First-time implementation of International Public Sector Accounting Standards

201. These financial statements for the year ended 31 December 2012 have been prepared in accordance with IPSAS for the first time.

202. The migration from the United Nations system accounting standards to IPSAS implies a number of significant changes to the accounting framework, including the preparation of the financial statements on an annual basis rather than a biennial basis. The adoption of the new accounting policies has resulted in changes to the assets and liabilities recognized in the statement of financial position. Accordingly, the previous audited statement of financial position, dated 31 December 2011, has been restated and the resulting changes are reported in the statement of changes in net assets and below.

203. In accordance with IPSAS, the opening balances of assets, liabilities and net assets/equity have been adjusted as at 1 January 2012. A comparison of the adjusted opening balances with the closing balances as at 31 December 2011 is given below.

Table 28.1

(Thousands of United States dollars)

	31 December 2011	*IPSAS adjustments*	*1 January 2012*
Assets			
Non-current assets			
Long-term investments	509 317	(293 671)	215 646
Total non-current assets	**509 317**	**(293 671)**	**215 646**
Current assets			
Inventories	–	841	841
Accounts receivable			
Project accounts receivable	21 309	5 597	26 906
Prepayments	–	11 910	11 910
Other accounts receivable	6 818	(883)	5 935

	31 December 2011	*IPSAS adjustments*	*1 January 2012*
Short-term investments	250 088	133 506	383 594
Cash and cash equivalents	212 060	158 933	370 993
Total current assets	**490 275**	**309 904**	**800 179**
Total assets	**999 592**	**16 233**	**1 015 825**
Liabilities			
Non-current liabilities			
Employee benefits	25 076	28 334	53 410
Total non-current liabilities	**25 076**	**28 334**	**53 410**
Current liabilities			
Accounts payable and accruals	209 036	(41 718)	167 318
Employee benefits	1 355	12 010	13 365
Project cash advances received	663 630	84 145	747 775
Short-term provisions	37 234	(36 634)	600
Total current liabilities	**911 255**	**17 803**	**929 058**
Total liabilities	**936 331**	**46 137**	**982 468**
Total net assets	**63 261**	**(29 904)**	**33 357**
Reserves			
Operational reserve	**63 261**	**(29 904)**	**33 357**

204. These adjustments pertain to recognition of expenses for delivered goods and services (accrued and deferred charges), cash and investments, recognition of allowances for receivables due to doubtful accounts and adjustments relating to employee benefits liabilities.

205. The net decrease on the operating reserve amounts to $29.9 million as at 1 January 2012. The total impact is as follows:

Table 28.2

(Thousands of United States dollars)

	IPSAS adjustments
IPSAS adjustment for employee benefits	(30 575)
IPSAS adjustment for revenues (fees)	(3 547)
IPSAS adjustments for expenses	4 218
Total impact on the operating reserve	**(29 904)**

Recognition of employee benefits

206. In accordance with International Public Sector Accounting Standard 25, the current obligations resulting from employee benefits should be recognized on the statement of financial position.

207. The recognition of employee benefits liabilities on after-service health insurance and repatriation creates a decrease of the reserves by $23.82 million. The recognition of annual leave and other short-term benefits such as education and assignment grants in accordance with the accrual principle creates a further decrease of the reserves by $10.01 million.

Adjustment for revenues

208. Revenue recognition is deferred under IPSAS as compared with the United Nations system accounting standards because the measurement basis for the stage of completion has changed. Given that expenses are recognized on the basis of receipts instead of unliquidated obligations, recognition of project fee income is delayed, with a total impact on reserves of $3.5 million.

Other opening balance sheet adjustments

209. The most significant elements of the other opening balance sheet adjustments are as follows:

Table 28.3
(Thousands of United States dollars)

	IPSAS adjustments
Reversal of unliquidated obligations management budget	3 838
Recognition of receipt accruals management budget	(383)
Restatement of doubtful debtors	850
Restatement of provisions and other liabilities	2 751
Foreign exchange revaluation of euro and Indian rupee balances	1 569
Straight-line recognition of lease expenses	(268)

210. The unliquidated obligations relating to the management budget expenses are reversed and replaced by receipt accruals. Both doubtful debtors and provisions have been remeasured in accordance with IPSAS. Revaluation of project cash advances denominated in euros and Indian rupees have increased the reserves by $1.6 million. Lastly, the straight-line recognition of the lease expenses of the Chrysler Building and other significant lease agreements has decreased the reserves by $0.2 million.

Balance sheet adjustments

211. A number of balance sheet adjustments pertain mainly to reclassifications between line items. A significant portion of the investment portfolio ($293.7 million) has been reclassified from non-current assets to the current portion or cash equivalents for all items, which fall due within 12 months after reporting date.

212. Prepayments of $11.9 million have been recognized following the accrual principle.

213. The increase in long-term employee benefits relates to the recognition of both after-service health insurance and repatriation grants for project staff, whereas the increase in short-term employee benefits of $12 million relates to the recognition of untaken annual leave, home leave and other receipt accruals.

214. The strong decrease in accounts payable and accruals of $41.7 million reflects mainly the substitution of unliquidated obligations by receipt accruals. The strong increase in project cash advances received of $84.1 million reflects the deferral of both expense recognition and fee recognition, which defers the recognition of the customer liability. The increase in project cash advances received is closely related to the decrease in accrued liabilities.

Glossary of technical terms

Accounting policies	IPSAS provides a general framework for accounting within the public sector and has to be adapted to meet the circumstances of individual bodies. The details of how IPSAS has been applied are summarized in note 3 to the financial statements.
Accruals basis	Accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.
Actuarial gains and losses	After-service health insurance is the only place in the UNOPS financial statements in which actuarial gains and losses arise. After-service health insurance liability is calculated by consulting actuaries on the basis of a set of assumptions, including longevity, the future cost of medical care and the discount rate, and a set of data, including staff numbers, ages and health care costs incurred in the past. Changes in any one of those factors may increase or decrease liability. The difference between the assumptions and actual performance, and the effect of changes in assumptions, is the actuarial gain or loss and is reported as a direct change on reserves. Changes arising from other factors (e.g. increases in the number of UNOPS employees) is an expense and reported in the statement of financial performance.
Amortization	A charge reflecting the consumption of an asset over its useful life.
After-service health insurance	The cost that UNOPS expects to pay in the future to discharge its responsibility to assist qualifying employees in funding their health-care costs.
Cash and cash equivalents	Cash on hand, cash at banks and deposits held with financial institutions where the initial term was less than three months.
Contingent asset	A potential asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNOPS. Contingent assets are not included in the statement of financial position.
Contingent liability	A possible obligation of UNOPS that arises from past events with a significant degree of uncertainty as to likelihood of a payment being made, or the measurement of the liability. Contingent liabilities are not included in the statement of financial position.
Depreciation	A charge reflecting the consumption of an asset over its useful life.
Employee	UNOPS is a party to the contract of employment of permanent staff employed under Staff Regulations and Rules of the United Nations and of individual contractors whose terms and conditions of employment are tailored to needs of the project being delivered. In terms of where the people work, 55 per cent are under the direct supervision of UNOPS and their employment costs are reported in the statement of financial

	performance, while the remaining 45 per cent are embedded with partners who are responsible for their direction and supervision and where their employment costs are reported by UNOPS as agency transactions in the financial statements.
Employee benefits	All those costs associated with employing a member of staff. The exact benefits are determined by the contract of employment.
Exchange revenue	Revenue generated from transactions in which UNOPS receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange. Most UNOPS contracts are of this nature. See also non-exchange revenue.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. For UNOPS, fair value is usually the cash amount needed to settle the transaction.
Financial instruments	Assets and liabilities where there is a contractual right to receive cash from, or pay cash to, another organization. They include cash and investments and most receivables and payables.
Going concern	The financial statements are prepared on the assumption that UNOPS is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going-concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, 12 months from the approval of the financial statements.
Individual contractors	Individuals working for UNOPS whose terms and conditions of service are tailored to the needs of the projects on which they are working. See also employees.
Impairment	The loss in the future economic benefits or service potential of an asset, over and above the structured charging of depreciation.
Investments	Deposits with financial institutions where the initial term was for a period in excess of three months.
Intangible assets	Identifiable non-monetary asset without physical substance, including computer software developed in-house by UNOPS and licensed software packages.
International Public Sector Accounting Standards (IPSAS)	The International Public Sector Accounting Standards have been developed by the International Federation of Accountants as an integrated set of accounting standards designed to meet the accounting and reporting needs of Governments and public sector bodies. The General Assembly adopted IPSAS, ensuring that, across the board, accounts are prepared on a consistent and comparable basis.

Inventory	Assets held in the form of material or supplies that will be used by UNOPS in the future to deliver services. Those items (such as vaccines) held by UNOPS on behalf of a partner under an agency contract are not considered under IPSAS to be UNOPS inventory.
Management budget	The Executive Board approves a biennial budget covering the fee income and related expenses. Out-turn against the budget was reported under the United Nations system accounting standards in the statement of income and expenditure, but is now covered by the statement of comparison of budget and actual amounts.
Management expenses	Those costs incurred under the management budget.
Operational reserve	Accumulated surplus built up over past years and the actuarial gains and losses in respect of post-employment benefits.
Property, plant and equipment	Tangible assets (including project assets) that are controlled by UNOPS, used to generate revenue and are expected to be used during more than one reporting period.
Principal and agent	IPSAS draws a distinction between transactions that an entity undertakes on its own behalf (principal) and those on behalf of others (agent). The distinction is whether the economic benefits arising from the contract accrue to UNOPS, except to the extent that a fee may be levied for providing an agency service.
Provisions	A liability of uncertain timing or amount.
Segment	The five UNOPS regional offices and headquarters.
Staff	A generic term that covers permanent staff and individual contractors. See also employees.
Transitional provisions	On first implementation of IPSAS, individual standards give relief from immediate application of aspects of the standard if certain specified criteria are met. This is important because some standards are complex to apply and time is required to collect the necessary information. UNOPS has applied all the standards from 1 January 2012 and adopted two important transitional provisions relating to the preparation of comparative figures for 2011 and a period of up to five years for the recognition of property, plant and equipment.
Trust funds	Moneys administered by UNOPS on behalf of a donor for the benefit of recipients. These transactions are typically classified as agency.

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